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Chapter 5 Intellectual Property

STREAMLINING DEFENSE ACQUISITION LAWS

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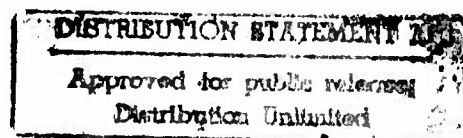
Report
of the
Acquisition Law Advisory Panel

to the
United States Congress



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5. INTELLECTUAL PROPERTY

5.0. Introduction

In the past decade there has been a major change in the relationship between the acquisition process and the research and development community in the United States. Prior to the 1980s, there was a general assumption that the technology necessary to support DOD could be obtained through direct funding of contracts for research and development and strong support of independent research and development conducted by defense contractors. The Department made use of some technology created in the commercial sector of the economy, but this was thought by many to be peripheral and, perhaps, aberrational. A corollary assumption was that very little technology produced by DOD research and development contracts had commercial application. Thus, the Department had no program to encourage commercial utilization of the technology it had sponsored. In this environment, the acquisition policies relating to intellectual property were properly focused on ensuring that the DOD obtained all of the rights in intellectual property that it needed to develop and use weapon systems. In some cases, the result of these policies was that DOD inadvertently took intellectual property rights in commercial products along with the rights in products developed at government expense.

In the 1980s it became more and more apparent that these earlier assumptions were becoming obsolete. As has been documented in the study of the Packard Commission and in the report by the Center for Strategic and International Studies, commercial technology has outpaced DOD technology in a number of areas of vital importance to the development of weapon systems. While the owners of this commercial technology may want to perform work for the Government, there appears to be increasing reluctance to use their best commercial technology if there is a possibility that DOD will take the intellectual property rights in that technology. It also appears that there will be a greater confluence of commercial and DOD technology in the future. This indicates that there may be greater opportunities to utilize DOD sponsored technology in the commercial sector of the economy. These premises require a different focus for the intellectual property policies of the Department in the acquisition process. The new focus must be on fulfilling the Department's needs in the least intrusive manner with regard to intellectual property and on maximizing the flow of technology from the commercial sector to DOD and from DOD to the commercial sector.

Both the Congress and the executive branch have recognized this new focus. Congress passed the Bayh-Dole bill in 1980 (35 U.S.C. § 200 et seq.) to ensure that small business and nonprofit organizations retained commercial rights to inventions made under Government contracts. In 1986, it passed the Federal Technology Transfer Act (15 U.S.C. § 3710a et seq.) to require Federal laboratories to enter into cooperative research and development agreements sharing technology with the private sector. These new policies were implemented and broadened by Executive Order 12591, April 10, 1987, which directed the head of each executive department, to the extent permitted by law, to:

- (1) delegate authority to its Government-owned, Government-operated Federal laboratories:

(A) enter into cooperative research and development agreements with other Federal laboratories, State and local governments, universities, and the private sector; and

(B) license, assign, or waive rights to intellectual property developed by the laboratory either under such cooperative research or development agreements or from within individual laboratories.

(2) identify and encourage persons to act as conduits between and among Federal laboratories, universities, and the private sector for the transfer of technology developed from federally funded research and development efforts;

(3) ensure that State and local governments, universities, and the private sector are provided with information on the technology, expertise, and facilities available in Federal laboratories;

(4) promote the commercialization, in accord with my Memorandum to the Heads of Executive Departments and Agencies of February 18, 1983, of patentable results of federally funded research by granting to all contractors, regardless of size, the title to patents made in whole or in part with Federal funds, in exchange for royalty-free use by or on behalf of the Government;

(5) implement, as expeditiously as practicable, royalty-sharing programs with inventors who were employees of the agency at the time their inventions were made, and cash award programs; and

(6) cooperate, under policy guidance provided by the Office of Federal Procurement Policy, with the heads of other affected departments and agencies in the development of a uniform policy permitting Federal contractors to retain rights to software, engineering drawings, and other technical data generated by Federal grants and contracts, in exchange for royalty-free use by or on behalf of the Government.

The Panel reviewed each law relating to the creation and use of intellectual property in the acquisition process to determine whether it impeded or furthered the attainment of these goals. In making this review it proceeded from three fundamental premises:

- That a company will not generally make the investment necessary to bring a product or service based on sophisticated technology to the commercial marketplace unless it has intellectual property protection in the form of a patent, copyright or trade secret.

- That a company will not generally use technology with strong commercial potential to perform DOD contracts unless it is assured that it retains intellectual property protection in that technology.
- That as a result of the first two premises, companies are discouraged from integrating their commercial with their military work.

The Panel found that there are a number of laws which are not fully in accord with the new goals. Its recommendations for change are generally made in order to complete the task which Congress began in 1980.

For purposes of review, the Working Group divided the Intellectual Property Laws into four subchapters as follows: (1) Rights in technical data; (2) Technology transfer; (3) Competitiveness of U.S. companies; and (4) Government use of private patents, copyrights, and trade secrets.

5.0.1. Background on Technical Data

During the 1940s, the War Department reserved the right to reproduce, use, and disclose technical information specified to be delivered by a contractor under a contract. While this information was to be provided for governmental purposes only, in fact, the Government construed this limitation broadly to encompass use for competitive procurement. This policy was refined and modified by DOD in the late 1950s to recognize for the first time the contractor's rights in "proprietary data." Such data would include, for example, selected information on a contractor's trade secrets or manufacturing processes. This proprietary data was protected by a contract clause stating that the contractor need not deliver such data if form, fit or function data was provided as a substitute. This clause also provided that data pertaining to "standard commercial items" need not be delivered.

In 1964, the Department modified this data rights policy, abandoning the concept of allowing the contractor to withhold "proprietary data." It substituted a new policy of allowing the Government to have "limited rights" in data pertaining to items, components, or processes developed at private expense. These limited rights permitted the Government to use the data for its own purposes except that the data could not be used to manufacture the product "in-house." Moreover, the data could not be disclosed to other contractors -- effectively barring its use for competitive procurement. To avoid disputes, an effort was also made at that time to have the Government and contractor agree in advance on their respective rights in such data before undertaking the contract.

This basic policy remained in effect until the early 1980s. At that time, concerns about abuses in spare parts procurement caused Secretary of Defense Weinberger to seek greater rights for the Department in technical data. The result was new military department contract clauses which, for example, required contractors to sell or relinquish their data rights as a condition of award and provided that the government would acquire unlimited rights after a stated period (five years in one widely used clause).

Congress followed suit by enacting new statutory requirements aimed at acquiring adequate data to permit competitive procurement of spare parts. The Defense Procurement Improvement Act of 1984 (Pub. L. No. 98-525) included extensive and detailed provisions (codified at 10 U.S.C. §§ 2320 and 2321). These were subsequently modified by Pub. L. No. 99-661 in 1986 to ensure that the implementing regulations provide a balance between the Government's needs for technical data to get competition and the contractor's needs for protection of its proprietary data. The June 1986 Packard Commission report also pointed out the impact of the data rights policy on the willingness of firms to participate in the defense marketplace. DOD published proposed regulations implementing Pub. L. No. 98-525 in September 1985. However, these regulations failed to satisfy the industry demand for protection of data that was perceived as being vital to maintaining their competitive position in both Government and commercial markets. Two revised proposals were published in 1988, but these still failed to achieve the agreed-upon balance between the Government's needs for competitive procurement and the contractors' proprietary rights. DOD continued its attempts to draft an acceptable regulation, but at the time the Panel discussed this issue, there was no indication how the matter would be resolved.

The inability of the Department to formulate a technical data policy acceptable to all parties is not a result of incompetence or lack of effort but rather of the fact that there are many competing demands that must be met. From the point of view of the Department, it must obtain technical data to meet its many needs with sufficient rights to ensure that the data can be used as necessary. One of the most compelling needs has been to ensure reasonable prices for spare parts through competition. If data is needed to meet that competition requirement, the Government must obtain sufficient rights to permit the data to be disclosed to companies that have the capability of manufacturing the product. There is a significant segment of industry that is dependent on obtaining this technical data in order to win contracts to manufacture parts. These companies generally perform little development work but have proved to be efficient manufacturers of parts for the Department. Another segment of industry including many small businesses consists of the major contractors and specialty subcontractors that have invested significant funds in developing new products for the Department as well as for the commercial market. These companies feel the need to protect their technical data in order to recover their investment and maintain their competitive position in the domestic and international market. Reconciling these competing needs has proven to be a formidable task and may never be possible in any perfect sense.

Congress intervened again and pushed DOD and industry toward a resolution of their differences by creating another group, the Section 807 Government/industry technical data committee, in the 1992 Defense Authorization Act. This committee was directed to develop a compromise technical data rule acceptable to both Government and industry. The committee is made up of representatives of DOD and the key industry groups (representing prime contractors, and subcontractors) which have a special interest in how the rule should be structured. Its report is also planned for early 1993.

5.0.2. Recommendations on Technical Data

After considering various options on how to proceed, the Panel decided to follow a two-pronged approach:

- First, make minimal modifications to the technical data statute, but sufficient to allow the Secretary of Defense the flexibility to explore other ways of treating the issue; and,
- Second, outline a new alternative approach for dealing with technical data that, instead of focusing on rights, focuses on the Government's need to ensure reasonable life-cycle costs, ordinarily through competition, for spare parts and other follow-on purchases.

The Panel recommends statutory changes to expand the definition of "technical data" to include computer data bases and manuals and other publications supporting computer programs while continuing to exclude computer programs themselves from the definition. In addition, the changes limit the law's applicability only to those data called for under a contract -- this is consistent with the current regulatory coverage. Finally, the Panel recommends that the law be modified to limit its applicability to commercial items being offered to the Government, reflecting the Panel's goal of encouraging firms to integrate their commercial and military work.

The alternative approach mentioned above focuses not on the distribution of rights between Government and industry, but rather on ways to ensure that the Government has the means to ensure that reprourement prices are reasonable. As such, it is both new and controversial. However, given the impasse that has existed over the last decade in developing a workable rights policy, the Panel presents this as a new idea to be considered. More work is needed to flesh it out fully and explore all of its implications so that it can be tested in certain programs to be designated by the Secretary of Defense.

The new approach is based on the concept that the Government would establish its needs for data on the basis of whether or not this data was necessary to achieve competition. Parts and components would be categorized according to the likelihood of their being repurchased and the cost effectiveness of subjecting them to full and open competition or limited competition. The Government program manager would be responsible for making the final decisions on the categorization, working with the contractor as the system is developed.

Under this approach, the contractor would be contractually obligated to deliver, when needed, a technical data package that was sufficient to permit competition for those parts and components so categorized. Where the Government approved the designation of a part or component for a single source, the developing contractor or subcontractor would not be required to give up its proprietary rights in the data. In this situation, contractors or subcontractors would prepare a detailed life-cycle analysis demonstrating that the part or component was properly acquired without generally distributing detailed technical data, either by using sole source procedures, form, fit and function competition, multisource qualification, or long term pricing agreement. If the part or component were designated for limited competition, the developing contractor or subcontractor would be allowed to maintain its proprietary rights to the data as long

as the contractor could provide one or more additional qualified sources that could compete for the work. These sources could be established through licensing, dual development, or even reverse engineering.

The key to this approach is that it recognizes those cases where there is no need for the Government to take reprourement rights in a contractor's technical data as long as the Government's need to ensure reasonable life-cycle costs is satisfied.

The Panel circulated several drafts of this proposal and received numerous comments, some positive, but many of them negative. The concerns varied. Some Government officials disagreed with the proposal because they believed the Government should take unlimited rights to technical data that resulted from the expenditure of any amount of Government funds (this was the pre-1984 policy). The alternative approach is based on a different philosophy -- that the Government should only seek the data rights it needs to achieve its objective of cost-effective acquisition, including reasonable life-cycle costs for reprourement parts. The alternative approach seeks to provide the Government with the means to achieve that objective while protecting contractors' commercially valuable technical data from disclosure, thereby further contributing to cost-effectiveness by facilitating Government access to commercial technologies, technology transfer, and commercial-military integration.

In response to the early drafts of the proposal, both Government and industry expressed concern that the process would be under the complete control of the prime contractor.¹ Firms in the breakout community and second tier vendor base that rely on the availability of technical data packages for their livelihood were particularly concerned that most of the parts and components would be categorized as subject to limited or no competition.² Also, since prime contractors would serve as data repositories under the alternative approach, subcontractors and small businesses were concerned that, under the proposed system, any contractor who wanted to compete with the original equipment manufacturer (OEM) in the military marketplace would have to get the data from the OEM, who would not be forthcoming or timely with the information.³ Finally, some subcontractors that invested corporate funds in developing items for defense systems were afraid that this proposal would give the prime contractors too much bargaining power and permit them to force the subcontractors to license competitors.⁴

These concerns were addressed in the revised proposal by making clear that the contractor would be obligated to develop and comply with a Spare Parts Acquisition Plan which was developed under the control of the Government and was approved by the contracting officer. In addition, the revised proposal makes clear that the program manager would have to approve any

¹See Memorandum from Capt. L. D. Harder, Space and Naval Warfare Systems Command, Dept. of Navy (Oct. 22, 1992); Memorandum from Edward J. Williamson, Jr., Head, Contracts Policy Branch, Naval Sea Systems Command, Dept. of Navy (Sept. 18, 1992); Memorandum from Alan Chvotkin, Sundstrand Corp. (Sept. 22, 1992); and Letter from Robert J. Moffitt, Associate Administrator for Procurement Assistance, U.S. Small Business Administration (Oct. 23, 1992).

²See Letter from Metal Forming and Fabrication, Inc. (Oct. 19, 1992) and Letter from James A Fishback, Sr., Ontario Air Parts, Inc. (Oct. 19, 1992).

³See letter from Ann E. Burrows, Vice President, Galaxie Management, Inc. (Oct. 20, 1992).

⁴Letter from Bettie S. McCarthy, The Proprietary Industries Association (Sept. 25, 1992).

parts or components which a contractor or subcontractor proposed for inclusion in a category for which reprourement technical data would not be provided. As to the fear that OEMs would not furnish technical data, the revised proposal makes this a contractual requirement. Indeed, the Panel perceives this as one of the advantages of this proposal because it ensures that small businesses will have accurate data on these parts. As to any potential problem concerning a prime contractor's bargaining power, the Government would be able to challenge any recommendation that would limit competitive reprourement.

Although some Government officials also raised concerns about the program managers' abilities to manage such a system effectively, several program managers commented that they believed the proposal had promise because it would permit them to achieve their needs without continuing arguments about which party owned the rights to the data.

The Panel sees these comments as a further indication that the various groups have arrived at virtually irreconcilable positions on this issue. This would seem to indicate a need for a new approach to the problem. It is in this spirit that the Panel decided to suggest that the alternative approach be tested. The Panel is convinced that the concerns expressed primarily reflect a misunderstanding of the intent of the proposal and that the best way to alleviate this misunderstanding is to try it out on one or more programs where the Government agency and the contractor are supportive of the attempt to find a new way to resolve this dilemma. In doing so, the Secretary could continue to seek ways to refine the approach to address the concerns of the competing interests. Such experimentation would be particularly appropriate if the Section 807 committee is unable to report a workable approach that adequately protects the Government from excessive reprourement costs while providing adequate protection for commercially valuable technology.

The Panel would like it clearly understood that this proposal is in no way meant to relinquish Government control over the selection of which parts or components are appropriate for competition nor to revert to discredited sole source practices. Moreover, the Panel expects that the new approach would not alter significantly the proportion of competitive versus noncompetitive reprourements. Competitive reprourement would remain the primary means for protecting the Government from having to pay unreasonable prices for spare parts and other follow-on purchases. Indeed, the new approach is designed to ensure that complete technical data packages are made timely available so that interested firms can compete more effectively in spare parts procurements. Importantly, as explained below in the Technical Data discussion, the new approach could help to achieve the Government's goal of promoting the flow of technology from the commercial sector to the Government and from the Government to the commercial sector.

Taking into account both the controversial nature of technical data issues and the absence of any clear solution to the overall policy problems, the Panel presents this alternative approach as an option to be considered on a trial basis for further development and refinement and selective application during development of major systems or subsystems.

5.0.3. Other Intellectual Property Issues

The other key intellectual property areas that the Panel addressed included those dealing with technology transfer, the competitiveness of U.S. companies and the Government's use of private patents, copyrights, and trade secrets. Again, the Panel approached these issues from the same policy framework described above, that is, of trying to meet Government or societal needs while continuing to protect the contractor's interest in the intellectual property it has developed.

5.0.4. Recommendations on Technology Transfer

For technology transfer, three major statutes have been enacted to promote the transfer of technology from the Government to the private sector. These are the University, Small Business Patent Policy Act; the Federal Technology Transfer Act; and the Stevenson-Wydler Technology Innovation Act. The Panel found all were being well implemented by DOD and recommended only minor changes to the first two laws.

The University, Small Business Act promotes technology transfer by permitting small businesses and nonprofit organizations to retain title to inventions made in the performance of Government contracts if they elect to file for a patent. The Panel's recommended changes to this Act focus on obtaining earlier disclosure of both the contractor's invention and its intention to file for a patent abroad. They also would give more time for agency review of an invention to protect the Government's option to file if the contractor elects not to do so. A final change would have the contractor file the patent application within one year of election. These changes should help to protect valuable commercial technology while also accelerating the entry of new technologies into the marketplace.

The Federal Technology Innovation Act promotes technology transfer by letting Federal laboratories enter into cooperative research and development agreements with private contractors. The Panel recommends two changes in this area:

- Allowing Government laboratories to claim copyright protection in computer programs developed by their employees, similar to the protection employees receive on patents; and
- Allowing employees or former employees under certain conditions to assist in commercializing the technologies they have developed, even though they might be entitled to royalties for their invention.

In both cases, the changes should make it easier for technologies developed in the laboratories to find their way into the private sector.

5.0.5. Recommendations on the Competitiveness of U.S. Companies

The Panel reviewed three statutes affecting the competitive status of the United States in the world market: the Invention Secrecy Act; the Arms Export Control Act; and, the Freedom of Information Act (FOIA). While the Panel recognizes the significant amounts of information (including at times information of value to contractors) released under FOIA requests, it believes the overall benefits of public disclosure of Government activities outweigh any potential negative effects. Therefore, it recommended no changes to FOIA.

For the Invention Secrecy Act, the Panel proposed that a new committee be established, chaired by DOD, and including representatives of the Patent Office, the Export Control Administration, and the Department of State, to review needs for secrecy orders on patent applications. Such orders are placed where the grant of a patent has been determined to be detrimental to the national security. The new committee should see that the policy is applied more consistently and effectively.

The key change recommended by the Panel for the Arms Export Control Act is the deletion of the requirement that the Government recoup nonrecurring costs when defense contractors sell major defense equipment through the Foreign Military Sales program. This recoupment requirement acts as a sales tax on U.S. goods, reducing the competitiveness of U.S. suppliers in world markets. The Panel's proposal is consistent with steps already taken by the Administration to eliminate all recoupment fees required by regulation. Existing Government export controls remain in place to determine what systems are appropriate for international sales and to which countries.

5.0.6. Recommendations on Government Use of Private Patents, Copyrights, and Trade Secrets

28 U.S.C. § 1498 gives DOD necessary access to private technology by allowing contracting officer's to provide firms with the authorization or consent to use private patents on Government contracts. Often this is coupled with an indemnity clause protecting the Government from any liability should a patent owner decide to sue the Government for infringement. The liability would then rest with the infringing contractor. The changes proposed by the Panel would modify the law to provide further protections to a patent owner. Specifically, the change would allow the owner to sue an infringing contractor for damages directly, rather than having to sue the Government. This change should reduce any unfair competitive advantage for an infringing contractor. A similar approach would be followed for purchases of commercial items. This would be consistent with the Panel's goals to follow commercial practices when making such buys.

5.1. Technical Data

5.1.0. Introduction

The Panel reviewed two statutory provisions dealing with technical data generated or used by Government contractors in the performance of their contracts -- 10 U.S.C. §§ 2320 and 2321. In an attempt by Congress to establish overall policy for technical data, the above sections were enacted in 1984 by Pub. L. No. 98-525 and modified in 1986 by Pub. L. No. 99-661. In effect, section 2320 limits the conduct of both DOD and its contractors in negotiating for rights in technical data while section 2321 establishes procedures to be followed in validating the accuracy of the rights to data claimed by contractors. The Panel noted that section 2321 has been fully implemented by the Department without significant controversy but that section 2320 has been implemented by an interim regulation (issued in DFARS in October 1988) which has been vigorously challenged by industry. The Panel also noted that a separate committee, established by section 807 of the National Defense Authorization Act for 1992, is currently attempting to arrive at a data regulation which will resolve the Government-industry impasse on technical data policy.

In view of the fact that the controversy over rights in technical data has been unresolved between the Department and industry for almost a decade, the Panel expended considerable effort seeking a resolution of the controversy. It sought different approaches for resolving the conflict between the industry desire to protect its proprietary rights in commercially valuable data and the Government desire to have data for competitive reprourement. The Panel has recommended a statutory modification to section 2320 which would make it possible for the Department to try different approaches for meeting the Government's need to ensure reasonable prices for spare parts and other follow-on acquisitions. In addition, the Panel describes in detail one such alternative method of dealing with the technical data issue which could be tested on a few programs.

A methodology for implementing the new alternative approach is outlined in the discussion of section 2320 and set forth in some detail in paragraph 5.1.1.7. In broad brush, it would allow the Government's contracting officials to utilize a policy based on the Government's need for competition rather than on an abstract rights in data policy. The approach recognizes that the Government needs to ensure reasonable prices for spare parts and other follow-on acquisitions. Competitive reprourement would remain the primary means for ensuring reasonable prices. Therefore, the norm would be to require contractors to provide complete reprourement technical data packages, if needed. That requirement would be clearly stated in the solicitation and would be included in the resultant contract so that firms interested in participating in a competitive reprourement had an effective opportunity to do so.

Importantly, the alternative approach also recognizes that if the Government's procurement practices do not accommodate effective protection for commercially valuable technologies, contractors may not offer to apply those technologies when developing items for Government use. In addition, they will be discouraged from investing in commercial applications of new technologies that are developed for Government use. As a result, contractors will be encouraged to keep their commercial work separate from their Government work, thereby

thwarting technology transfer between the Government and commercial sectors. When this happens, the Government gets less for its money, the defense industrial base shrinks, and the competitiveness of U.S. firms suffers. Accordingly, the alternative approach would provide flexibility so that contracting officials could 1) agree to accept data for limited purposes for specifically identified parts and components, or 2) negotiate to acquire unlimited rights of the Government long term needs would thereby be better served. In any case, the Government would continue to receive the technical data necessary for internal purposes such as design verification, training, installation, operation, maintenance, and testing.

The Panel has also suggested other modifications to 41 U.S.C. § 403 that 1) make it clear that the section relates only to the situation where the Government orders technical data on a contract, 2) ensure that the Government does not demand excessive data rights when buying commercial items, and 3) clarify the provision dealing with time limits placed on limited rights in data. The Panel believes that these recommendations clarify the section without making significant substantive changes to the fundamental policies embodied in the section.

The Panel has also suggested a new definition of "technical data" in 41 U.S.C. § 403. This recommended change clarifies the distinction between technical data and computer programs so that policy in this area can address each of these issues separately. The definition recommended is essentially the same as has been agreed to in the latest proposed FAR provision on technical data and computer software.

Finally, the Panel recommends a minor modification to section 2321 that limits validation of technical data rights to those situations where the Government has identified a need to use the data for competitive procurement purposes. This modification is needed to ensure that the Government and its contractors do not expend resources determining the rights in technical data which will never be used by the Government for competitive procurement.

5.1.1. 10 U.S.C. §§ 2320 - 2321¹

Rights in technical data and validation of proprietary data restrictions

5.1.1.1. Summary of the Law

Section 2320 states that the "Secretary of Defense shall prescribe regulations to define the legitimate interest of the United States and of a contractor or subcontractor in technical data pertaining to an item or process."² The section sets forth three categories of rights in technical data.

- Government funded. This is defined as an item or process that is developed by a contractor or subcontractor exclusively with Federal funds.³ Under this category, the U.S. has unlimited rights to: (1) use technical data pertaining to the item or process; or (2) release or disclose the technical data to persons outside the Government or permit the use of the technical data by such persons.⁴
- Privately funded. This is defined as an item or process that is developed by a contractor or subcontractor exclusively at private expense.⁵ In this case, the contractor or subcontractor may restrict the right of the United States to release or disclose technical data pertaining to that item or process to persons outside the Government, or permit the use of the technical data by such persons.⁶ This does not apply to technical data that: (1) constitutes a correction or change to data furnished by the U.S.; (2) relates to form, fit, or function; (3) is necessary for operation, maintenance, installation, or training (other than detailed manufacturing or process data); or (4) is otherwise publicly available or has been released or disclosed by the contractor or subcontractor without restriction on further release or disclosure.⁷ The U.S. may also release or disclose technical data under this category if such release, disclosure, or use: (1) is necessary for emergency repair and overhaul; or (2) is a release or disclosure of technical data (other than detailed manufacturing or process data) to, or use of such data by, a foreign government that is in the interest of the U.S. and is required for evaluational or informational purposes.⁸ Such release under this exception is made subject to a prohibition that the person to whom the data is released

¹Also included in this paper is a discussion of 41 U.S.C. § 403, which defines the term "technical data."

²10 U.S.C. § 2320(a)(1).

³10 U.S.C. § 2320(a)(2)(A).

⁴*Id.*

⁵10 U.S.C. § 2320(a)(2)(B).

⁶*Id.*

⁷10 U.S.C. § 2320(a)(2)(C).

⁸10 U.S.C. § 2320(a)(2)(D).

or disclosed may not further release, disclose, or use such data and the contractor or subcontractor asserting the restriction is notified of such release, disclosure, or use.⁹

- Mixed funding. In this case, an item or process is developed in part with Federal funds and in part at private expense.¹⁰ The statute provides that the respective rights of the U.S. and of the contractor or subcontractor in technical data pertaining to such item or process shall be established as early in the acquisition process as practicable (preferably during contract negotiations).¹¹ Such rights shall be based on the following considerations: (1) the congressional policy and objectives in section 200 of Title 35, the statement of purposes in section 2(b) of the Small Business Innovation Development Act of 1982, and the declaration of policy in section 2 of the Small Business Act;¹² (2) the interest of the U.S. in increasing competition and lowering costs by developing and locating alternative sources of supply and manufacture;¹³ (3) the interest of the U.S. in encouraging contractors to develop at private expense items for use by the Government;¹⁴ and (4) such other factors as the Secretary of Defense may prescribe.¹⁵

Section 2321 is applicable to any contract for supplies or services entered into by DOD that includes provisions for the delivery of technical data.¹⁶ Under this section, a contractor and any subcontractor must be prepared to furnish a written justification to the contracting officer for any use or release restriction.¹⁷ The Secretary of Defense must ensure that there is a thorough review of the appropriateness of any use or release restriction asserted.¹⁸ This review must be conducted before the end of a three-year period beginning on the later of: (1) the date on which final payment is made on the contract under which the technical data is required to be delivered; or (2) the date on which the technical data is delivered under the contract.¹⁹

The Secretary of Defense may challenge a contractor or subcontractor's use or release restriction if the Secretary finds that: (1) reasonable grounds exist to question the current validity of the asserted restriction, and (2) the continued adherence to the asserted restriction would make it impracticable to procure the item competitively at a later time.²⁰ A challenge to an asserted use or release restriction may not be made, however, after the end of the three-year period unless the technical data: (1) are publicly available; (2) have been furnished to the U.S. without restriction; or (3) have been otherwise made available without restriction.²¹ The Secretary must provide

⁹10 U.S.C. § 2320(a)(2)(D)(ii) and (iii).

¹⁰10 U.S.C. § 2321(a)(2)(E).

¹¹*Id.*

¹²10 U.S.C. § 2320(a)(2)(E)(i).

¹³10 U.S.C. § 2320(a)(2)(E)(ii).

¹⁴10 U.S.C. § 2320(a)(2)(E)(ii).

¹⁵10 U.S.C. § 2320(a)(2)(E)(iv).

¹⁶10 U.S.C. § 2321(a).

¹⁷10 U.S.C. § 2321(b).

¹⁸10 U.S.C. § 2321(c).

¹⁹*Id.*

²⁰10 U.S.C. § 2321(d).

²¹*Id.*

written notice of the challenge to the contractor or subcontractor asserting the restriction.²² If the contractor or subcontractor fails to respond to the notice, the contracting officer shall issue a final decision pertaining to the validity of the asserted restriction.²³ If a contractor or subcontractor submits a justification in response to the notice, the contracting officer must, within 60 days of receipt, issue a final decision or notify the party asserting the restriction of the time within which a final decision will be issued.²⁴

The section also provides that it is a justification of an asserted use or release challenge that, within the three-year period preceding the challenge to the restriction, DOD validated a restriction identical to the asserted restriction if: (1) such validation occurred after a challenge to the validated restriction under this subsection, and (2) the validated restriction was asserted by the same contractor or subcontractor.²⁵

Any claim submitted pertaining to the validity of an asserted restriction will be considered a claim within the meaning of the Contract Disputes Act.²⁶ If the contracting officer's challenge is sustained, then the restriction will be canceled and the contractor or subcontractor may be liable for fees and other expenses if the restriction is found not to be substantially justified.²⁷ If the contracting officer's challenge is not sustained then the U.S. shall continue to be bound by the restriction and may be liable for payment to the party asserting the restriction for fees and other expenses.²⁸

5.1.1.2. Background of the Law

During the early and middle 1940s, data rights were governed by a single paragraph in the patent provisions.²⁹ This paragraph was embodied in Procurement Regulation (PR) 3 of the War Department Regulations. In 1947, the Army Procurement Regulations (APR),³⁰ which superseded the War Department Procurement Regulations, issued a data rights provision that was basically identical to PR 3. This clause stated:

(d) Contractor agrees to and does hereby grant to the Government, to the full extent of Contractor's right to do so without payment of compensation to others, the right to reproduce, use and disclose for governmental purposes (including the right to give to foreign governments as national interest may demand) all or any part of the reports, drawings, blueprints, data and technical information specified to be delivered by Contractor to the Government under

²²10 U.S.C. § 2321(d)(3).

²³10 U.S.C. § 2321(f).

²⁴*Id.*

²⁵10 U.S.C. § 2321(d)(4).

²⁶10 U.S.C. § 2321(g).

²⁷10 U.S.C. § 2321(h).

²⁸*Id.*

²⁹See Judge Lane's opinion in *Bell Helicopter Textron*, ASBCA No. 21192, 85-3 BCA 18,415, for an excellent regulatory history of data rights.

³⁰Army Procurement Regulations issued Nov. 1, 1947 (later renamed the Joint Procurement Regulations).

this contract; provided, however, that nothing contained in this sentence shall be deemed to grant a license under any patent now or hereafter issued or imply any right to reproduce anything else for this contract.³¹

The Armed Services Procurement Regulation (ASPR) superseded the APR (renamed Joint Procurement Regulations) in 1948.³² The standard patent rights clause prescribed by ASPR 9-107.1 again contained essentially the same data rights provision as its predecessor clauses. This clause contained no provision for protecting proprietary information delivered to the Government by a contractor. The Government's reproduction, use, or disclosure of contractor's submitted data, however, was limited to Governmental purposes. The Government often ignored this limitation and viewed its rights as unlimited.

ASPR Revision No. 1 dated 4 January 1955 finally removed the data rights paragraph from the patent rights clause and made it a separate clause entitled "Reproduction and Use of Technical Data."³³ Judge Lane, in his opinion in *Bell Helicopter Textron*, stated that severing the data rights provision from the patent clause was done in anticipation of revising section IX, Part 2 to cover both technical data and copyright.³⁴

The first comprehensive data policy was set forth in ASPR Revision 20 dated 26 March 1957. This was the first regulation to recognize a contractor's proprietary data. The revision deleted ASPR 9-112 and established three categories of data, which were: (1) operational data; (2) design data; and (3) proprietary data. This was the first time that contractors were given certain protections for their data. The policy also established the term "standard commercial items."

The three categories of data were defined as follows:

(a) "Operational data" means data providing information suitable, among other things, for instruction, operation, maintenance, evaluation or testing.

(b) "Design data" means data providing descriptive or design drawings which could be used by any competent manufacturer, in conjunction with its own internal manufacturing techniques and processes, to reproduce the supplies and services.

(c) "Proprietary data" means data providing information concerning the details of the contractor's trade secrets or manufacturing

³¹APR 8-103.2(3) and APR 8-103.3(3).

³²Armed Services Procurement Act of 1947, Pub. L. No. 80-413, 62 Stat. 21-26 (1948), 41 U.S.C. §§ 151-162 (1952).

³³ASPR 9-112 (ASPR 1955 ed., rev. 1, Jan. 4, 1955).

³⁴*Bell Helicopter*, 85-3 BCA at 92,388.

processes which are not disclosed by the design itself and which the contractor has the right to protect from use by others.³⁵

Under this policy, "only proprietary data was recognized as legitimately entitled to protection against unlimited use by the Government."³⁶ The policy set forth two ways by which a contractor's proprietary data could be protected. First, a "Rights in Data -- Limited" clause could be inserted in supply contracts. This clause would be used when the Government had a specific need for the proprietary data for a limited purpose. The second way that a contractor's data could be protected was by a proscription against obtaining the data in the first place. The proscription could be used, for example, when the contract was for a "standard commercial item." The policy also introduced the procedure of placing restrictive legends or markings on technical data.³⁷

In 1958, the ASPR provided increased protection for a contractor's proprietary data. Revision 38 dated 15 October 1958 added a general statement at ASPR 9-202.1(a) which provided:

(a) General. It is the policy of DOD to encourage inventiveness and to provide incentive therefor by honoring the "proprietary data" resulting from private development's and hence to limit demands for data to that which is essential for Government purposes.³⁸

In carrying out this policy, ASPR 9-203.2, Revision 38, added a provision to the data clause that proprietary data need not be delivered for supply contracts unless "specifically identified in the schedule." Under research and development contracts, ASPR 9-202.1(c), Revision 38, adopted a broad proprietary data provision as follows:

Data need not be furnished for standard commercial items or services which are normally or have been sold or offered to the public commercially by any supplier and which are incorporated as component parts in or to be used with the product or process being developed if in lieu thereof identification of source and characteristics (including performance specifications, when necessary) sufficient to enable the Government to procure the part or an adequate substitute, are furnished; and further, proprietary data need not be furnished for other items which were developed at private expense and previously sold or offered for sale, including minor modifications thereof, which are incorporated as component parts in or to be used with the product or process being developed, if in lieu thereof the Contractor shall identify such other items and that "proprietary data" pertaining thereto which is necessary to enable reproduction or manufacture of the item or performance of

³⁵ASPR 9-201 (ASPR 1955 ed., rev. 20, Mar. 26, 1957).

³⁶Bell Helicopter, 85-3 BCA at 92, 388 (quoting ASPR 9-202.2(a), ASPR 1955 ed., rev.21, Apr. 9, 1957).

³⁷ASPR 9-203.2 (ASPR 1955 ed., rev. 21, Apr. 9, 1957).

³⁸ASPR 9-202.1(a) (ASPR 1955 ed., rev. 38, Oct. 15, 1958).

the process. For the purpose of this clause "proprietary data" means data providing information concerning the details of a Contractor's secrets of manufacture, such as may be contained in but not limited to its manufacturing processes, treatment and chemical composition of materials, plant layout and tooling, to the extent that such information is not disclosed by inspection or analysis of the product itself and to the extent that the Contractor has protected such information from unrestricted use by others.³⁹

In 1964, DOD promulgated a new data rights policy in Defense Procurement Circular (DPC) No. 6.⁴⁰ The DPC was optional the first year and became mandatory the following year.⁴¹ The policy, with some additional changes provided by DPC No. 24, was subsequently incorporated into the ASPR by Revision No. 10 dated 1 April 1965. This policy remained largely intact until the early 1980s. One of the factors possibly contributing to the longevity of this policy may have been that "developed at private expense" was never defined.

The 1964 policy abandoned the concept of withholding proprietary data and replaced it with a policy of requiring the delivery of certain contractor proprietary information with limited rights. Under this policy, the Government's rights in contractor data would be either "limited" or "unlimited." Limited rights in data would largely preclude the Government from releasing the data for use in competitive reprocurement or in-house manufacture. Unlimited rights would allow the Government unrestricted use and disclosure of the data (e.g., use in competitive reprocurement). The Government would have limited rights in "technical data pertaining to items, components or processes which were developed at private expense and incorporated into, or used in making the end-items, components, modifications, or processes developed."⁴² There was a proviso that "form, fit, or function" data was furnished with unlimited rights.⁴³ Included in this policy was a provision for "predetermination of rights in data." This procedure was intended to be used to forestall disputes by having the Government and contractor agree on their rights before contract performance.

In 1965, DOD issued DPC No. 22,⁴⁴ promulgated in the 1963 edition of the ASPR. This DPC set forth a policy statement "that independent research and development costs (IR&D) were treated as 'private expense' for data rights purposes, even if reimbursed by the Government through indirect cost allocations."⁴⁵

During the 1970s, the ASPR Committee proposed various definitions of the term "developed at private expense," hoping to find a definition suitable to both the Government and

³⁹Ralph C. Nash, Jr. and Leonard Rawicz, PATENTS AND TECHNICAL DATA, 428 (quoting ASPR 9-203.2, ASPR 1955 ed., rev. 38, Oct. 15, 1958).

⁴⁰DPC No. 6 (May 14, 1964).

⁴¹DPC No. 20 (Dec. 18, 1964).

⁴²*Bell Helicopter*, 85-3 BCA at 92,391 (quoting ASPR 9-202.2(b)(2), ASPR 1963 ed., rev. 10, Apr. 1, 1965).

⁴³ASPR 9-203 (b)(1)(ii) (DPC No. 6, May 14, 1964).

⁴⁴DPC No. 22 (Jan. 29, 1965).

⁴⁵*Bell Helicopter*, 85-3 BCA at 92,392.

industry. The ASPR Committee eventually submitted a report with a proposed definition; however, it was never issued.⁴⁶

In the early 1980s, the data rights policy collapsed primarily because of the adverse publicity from the procurement of spare parts at arguably excessive prices.⁴⁷ Secretary of Defense Weinberger issued a blanket deviation to the technical data regulations which allowed the military services to adopt a variety of policies to obtain greater rights in technical data. Congress then enacted new statutory requirements as part of the Defense Procurement Improvement Act of 1984 (Pub. L. No. 98-525), stressing the need to acquire data for competitive reprourement of spare parts. These statutory provisions were modified in 1986 by Pub. L. No. 99-661 and are codified at 10 U.S.C. §§2320 and 2321. Other factors contributing to the enactment of these statutes included 1) the adoption of the Competition in Contracting Act (CICA) which became effective in April 1984 and which required increased competition in defense procurement, and 2) the increased unwillingness of contractors selling commercial products and computer software to agree to the policy of giving the Government unlimited rights to technical data and computer software developed in the performance of a Government contract.⁴⁸

The development of workable implementing regulations was still elusive, notwithstanding Congress' direction to DOD to provide regulations which would balance the needs of the Government (to obtain competition) with the protection of contractors' proprietary rights. Coverage of data rights was noticeably missing from the FAR when it was published in 1984. This was because DOD and the civilian agencies could not agree on a single regulation. Instead, they decided to issue two data regulations. A proposed FAR was published for comment in the Federal Register in August 1985,⁴⁹ followed by a proposed DOD FAR supplement (DFARS) in September 1985.⁵⁰ The proposed DFARS was subsequently withdrawn primarily because of congressional and industry objections to the definition of the term "developed", and because it did not provide the balancing of interest required by the statute. An interim DFARS rule was subsequently published, which modified the pre-CICA coverage on data rights to comply with the Department's obligations under the new statute.

Also during 1984 and 1985, the Air Force and Navy devised their own clauses on data rights. In both cases, the clauses required contractors and subcontractors to sell or relinquish their data rights as a condition of award or to give up rights a short time after contract performance.

In June 1986, the Packard Commission issued its report which included extensive treatment on data rights. The Commission's report noted that the current practice discouraged

⁴⁶The Navy members of the ASPR Subcommittee on Technical Data submitted a minority report disagreeing with this definition.

⁴⁷See Ralph C. Nash, Jr., *Proprietary Rights in the Competitive Era*, Gov't. Exec. 51 (Apr. 1987).

⁴⁸*Id.*

⁴⁹50 *Fed. Reg.* 32870 (1985).

⁵⁰50 *Fed. Reg.* 36887 (1985).

firms from participating in defense markets.⁵¹ Later that year, Secretary of Defense Weinberger rescinded the 1983 deviation waiver.

The proposed data rights regulation in the DFARS subpart 227 was published for comment on 16 January 1987.⁵² The regulation, however, failed to address the contractors' needs for protection of their commercial technology which they had incorporated into military products.⁵³ Some of the features of the proposed DFARS regulation included a new type of right in the standard clause -- a "Government purpose license right" in technical data for items, components, or processes developed with mixed funding. This right would permit the Government to use the data for competitive procurement purposes, but would require recipients of such data to sign an agreement precluding disclosure and commercial use of the data.

Another significant feature of the proposed DFARS regulation was the definition of "developed at private expense." The proposed DFARS 227.471 followed the guidance of the Congressional Conference Committee on the definition of the term "developed." This guidance provided that "the item or component must have been constructed or the process practiced" and "workability" must be established. The proposed DFARS 227.471 definition of the term "at private expense," however, was less consistent with the congressional guidance. The proposed definition of "at private expense" was as follows:

The cost of the development has not been paid in whole or in part by the Government and that such development was not sponsored by or required as an element of performance under a Government contract or subcontract; provided, however, independent research and development and bid and proposal costs are deemed to be at private expense.

Pub. L. No. 99-661 amended 10 U.S.C. § 2320(a)(2)(F) to prohibit the Government from requiring a contractor "to sell or otherwise relinquish" rights in private expense data "as a condition of being responsive to a solicitation or as a condition for the award of a contract." This provision was directed at the practice of requiring offerors to submit alternative proposals giving up all rights and making their willingness to cooperate an evaluation factor in the source selection.

10 U.S.C. § 2320 was again amended by section 808 of the DOD Authorization Act of 1988, Pub. L. No. 100-180. The amendments to the statute were minor. On 10 April 1987, Executive Order No. 12591 was issued. This order provided that contractors be permitted to retain commercial rights in technical data and computer software developed on Government contracts. The order mandated that each agency shall:

⁵¹COMMISSION ON DEFENSE MANAGEMENT, A QUEST FOR EXCELLENCE -- FINAL REPORT TO THE PRESIDENT, 15 (June 1986).

⁵²52 *Fed. Reg.* 2082 (1987).

⁵³Ralph C. Nash & John Cibinic, *Proposed New Department of Defense Technical Data Policies*, 1 N&CR ¶ 16 (Feb. 1987).

(6) cooperate, under policy guidance provided by the Office of Federal Procurement Policy, with the heads of other affected departments and agencies in the development of a uniform policy permitting Federal contractors to retain rights to software, engineering drawings, and other technical data generated by Federal grants and contracts, in exchange for royalty-free use by or on behalf of the Government.

On 16 April 1987, proposed DFARS 227.471 set forth the following definition of "developed":

"Developed," as used in this subpart, means that the item, component, or process exists and is workable. Thus, the item or component must have been constructed or the process practiced. Workability is generally established when the item, component or process has been analyzed or tested sufficiently to demonstrate to reasonable people skilled in the applicable art that there is a high probability that it will operate as intended. Whether, how much, and what type of analysis or testing is required to establish workability depends on the nature of the item, component, or process, and the state of the art. To be considered "developed," the item, component, or process need not be at the stage where it could be offered for sale or sold on the commercial market, nor must the item, component or process be actually reduced to practice within the meaning of Title 35 of the U.S. Code.⁵⁴

This resolved the major disagreement that had existed over the amount of "testing" required to prove that the item, component, or process was developed. Many individuals in Government had believed that the definition should require sufficient testing to show "a reduction to practice" as required with patentable inventions. Industry had objected to such a stringent requirement. Judge Lane, in his opinion in *Bell Helicopter Textron*, arrived at a middle ground stating that:

Practicability, workability, and functionability (which seem to be essentially synonymous concepts for this purpose) must be demonstrated, that is, the item or component must be analyzed and/or tested sufficiently to demonstrate to reasonable persons skilled in the applicable art that there is a high probability the item or component will work as intended. Whether testing is required in addition to analysis, and the degree of testing and whether dynamic as well as static, depends on the nature of the item or component and the state of the art.⁵⁵

⁵⁴This definition is based on the guidance contained in the Conference Report to The National Defense Authorization Act for Fiscal Year 1987, Pub. L. No. 99-661, 100 Stat. 3876 and on the detailed analysis and holding in *Bell Helicopter Textron*, ASBCA 21192, 85-3 BCA ¶ 18, 414.

⁵⁵*Bell Helicopter*, 85-3 BCA at 94,421 & 94, 422.

These words are used almost verbatim in the DFARS definition.

Proposed DFARS 227.471 also adopted the following definition of "private expense":

"Private expense," as used in this subpart, means that the cost of development has not been paid in whole or in part by the Government and that such development was not required as an element of performance under a Government contract or subcontract; provided, however, independent research and development and bid and proposal costs are deemed to be at private expense.

This definition largely reflected the views of the drafters of the 1964 DOD policy.

In May 1987, the FAR data provisions were finally issued.⁵⁶ FAR Subpart 27.4 provided a single policy for all agencies except DOD. Notably, the FAR provision also established a goal of 30 September 1988 for the issuance of a single regulation. The FAR clause provided the Government with unlimited rights in the following categories of data:

- (1) Data first produced in the performance of the contract;
- (2) Form, fit, and function data delivered under the contract;
- (3) Manuals or instructional and training material for installation, operation, or routine maintenance and repair of items, components, or processes delivered or furnished for use under the contract; and
- (4) All other data delivered under the contract other than limited rights data.⁵⁷

These categories are similar to the unlimited rights provisions in the DFARS. Notice, however, that the FAR clause only gives data rights in data relating to the specific contract. The DFARS clause, on the other hand, is broader in that it gives rights in data relating to "this or any other Government contract or subcontract."

In April 1988, DOD issued an interim rule on a new technical data policy. This policy required "cradle to grave" negotiation of all technical data rights. There was, however, little guidance provided on the techniques to be used in the negotiation. The interim rule called for the negotiation of data rights pertaining to every item, component, and process for which the contractor was claiming a proprietary right. Under DFARS 227.473-1(c)(1)(iii), the parties had to agree to a list. This list was required to:

⁵⁶52 *Fed. Reg.* 18140 (1987).

⁵⁷See Ralph C. Nash & John Cibinic, *FAR Data Provisions Issued At Last*, 1 N&CR ¶ 51 (June 1987).

(A) identify the items, components, processes, or computer software to which the technical data pertains;

(B) identify or describe the technical data or computer software subject to other than unlimited rights; and

(C) identify or describe, as appropriate, the category or categories of Government rights, the agreed-to time limitations, or any special restrictions on the use or disclosure of the technical data or computer software.

DFARS 252.227-7013(b)(1)(ix) and (k) provided that the Government would obtain unlimited rights in any technical data not on the list. This provided contractors with an incentive to ensure that the list was complete.

DOD again revised its technical data policy by issuing another interim rule which took effect in November 1988.⁵⁸ The November interim rule backed away from the total negotiation policy set forth in the previous interim rule. This was the third data policy in less than three years. From the progression of these policies, it appears that DOD seems to be moving toward a balance between: (a) protecting contractor rights in technical data and (b) obtaining information necessary to conduct competitive procurements.

On 15 October 1990, an Advance Notice of Proposed Rule making was published.⁵⁹ The advance notice addressed four types of rights: (1) unlimited; (2) limited; (3) restricted; and (4) Government purpose. The proposal seemed to suggest that the Government should have unlimited rights in any data produced during a contract, regardless of whether the Government has a need for the data or whether Government acquisition of the data would destroy its commercial value. The Advance Notice of Proposed Rule making was not implemented.

5.1.1.3. Law in Practice

While representing extensive effort by both the Government and the private sector to ensure fair and workable rules, the current implementation of the law on technical data rights, 10 U.S.C. § 2320, is still a source of conflict and confusion for both sides. The recent changes in the law have solved some problems. For example, it now establishes a statutory basis for recognizing and protecting contractor rights in privately developed items, components, and processes and clarifies boundaries for the Government in pursuing data rights for full and open competition. The law also clarifies validation procedures, 10 U.S.C. § 2321.

The current procurement process, however, is driven by an allocation or determination of rights in technical data which begins during development but often occurs after the system has been produced, and when the Government's needs are more likely to conflict with the interests of the contractor and its vendors. The result is that the Government spends millions of dollars trying

⁵⁸This interim rule was subject to further revision after receipt of public comments, 53 *Fed. Reg.* 43698 (1988).

⁵⁹55 *Fed. Reg.* 41788 (1990).

to obtain and maintain full data packages for parts or components which may not be suitable for competition for technical reasons, while other parts or components for which competition may be appropriate are overlooked.

5.1.1.4. Recommendations and Justification

I

Amend 41 U.S.C. § 403 to provide a more accurate definition of "technical data."

The current statutory definition of the term "technical data" was derived from the procurement regulations in 1984 when the statute was enacted. It excluded computer software but included computer software documentation based on the current thinking in the Department. Since that time, almost all persons that have addressed the technical data and computer software policies have agreed that this is not a useful breakdown of intellectual property as it regards computer software. The current thinking, as reflected in the Advance Notice of Proposed Rule making in October 1990, is that technical data should include computer data bases and manuals and other publications supporting computer programs but that all elements of the computer programs themselves should be excluded from the definition of technical data. The Panel agrees with this view and has recommended that the definition of "technical data" be revised to permit the new policy to be written on this basis.

II

Amend 10 U.S.C. § 2320 to more clearly define when it is applicable.

Amend 10 U.S.C. § 2321 to place reasonable limits on the scope of review.

Amend 10 U.S.C. §§ 2320 and 2321 to better clarify the laws.

The proposed amendments to 10 U.S.C. § 2320 contain a clearer statement of when the law is applicable. Thus, the first sentence of section 2320(a)(1) is amended to state that "[t]he Secretary of Defense shall prescribe regulations to define, in all contracts where technical data is specified to be delivered, the respective rights of the U.S. and of a contractor or subcontractor." This change reflects the DFARS requirement that the policy applies when the Government is calling for data under a contract and not otherwise.

Section 2320(b)(7) is deleted in its entirety because the Panel concluded that the certification requirement is burdensome on contractors and acts counter to the goal of streamlining the acquisition process by reducing paperwork.

The Panel also concluded that section 2320(c) should be deleted in its entirety. This section is unnecessary because the Secretary already has authority under the basic statute to prescribe regulations and negotiate rights. Specifically, section 2320(a) provides the Secretary with the authority to prescribe regulations and section 2320(a)(2)(G) allows the Secretary to negotiate the acquisition of rights. Thus, section 2320(c) is redundant and should be repealed.

Section 2321(c) provides that the Secretary of Defense must review the appropriateness of any use or release restriction with respect to technical data delivered by a contractor or subcontractor. Technically, this requires the Secretary to review all technical data for which the contractor asserts a use or release restriction regardless of whether the Government has a need for the data. The proposed amendment provides that a review need not be conducted unless the Government has a need for the data and the contractor requests to provide less than full procurement data rights. This proposal attempts to place reasonable limits on the scope of review.

The remaining proposed statutory changes to sections 2320 and 2321 are primarily ones of clarification. For instance, the term "for any purpose" was added to sections 2320(a)(2)(A)(i) and (ii) to clarify that the Government has full data rights under these provisions. The proposed amendment to section 2320(a)(2)(B) attempts to clarify the use limitation by providing that the contractor or subcontractor may restrict the right of the U.S. to "use technical data pertaining to the item or process for manufacturing by the Government." Other minor clarification amendments include adding the word "final" before "decision" in section 2321(f) in order to be consistent with the Contract Disputes Act. Also, the proposed amendment to section 2321(g) clarifies that there is no requirement to state a sum certain to be considered a claim within the meaning of the Contract Disputes Act.

III

Amend 10 U.S.C. § 2320(a)(3) to provide a separate policy for commercial items or components.

Section 2320(a)(3) is amended to limit its applicability to commercial items. DOD policy, as set forth in the DFARS, encourages the use of commercial items to the maximum extent possible. The DFARS state that DOD will normally only obtain technical data and data rights with regard to commercial items as provided in 10 U.S.C. § 2320(a)(2)(C) & (D). The proposed statutory amendment to section 2320 adopts this policy.

IV

Amend 10 U.S.C. § 2320 to permit the Secretary of Defense to utilize any technical data policy that would meet the Government's procurement needs while providing protection for commercially valuable technology.

The proposed amendment to section 2320(a)(2)(G)(ii) would permit the Secretary of Defense to utilize any technical data policy that would meet the Government's reprocurement needs while providing the maximum possible protection for commercially valuable technology. Thus, it would permit the Secretary to adopt policies that did not take reprocurement rights in technical data for commercially valuable technology. This broad authority would enable the Secretary to consider a new approach for the procurement of replenishment parts and components of weapon systems that was based on ascertaining competition needs and meeting those needs without the necessity of negotiating rights to technical data. Under the amended provision, the Secretary would have the flexibility to test this new approach as an alternative method of dealing with technical data.

The new alternative approach is intended to be applied during the engineering and manufacturing development (EMD) and production of a system or product to be used by the Government. This proposal is not based on a distribution of technical data rights theory (as set forth in section 2320), but rather on a procurement strategy which relies on identifying the need for competitive acquisition based on a life cycle cost analysis and providing competitive sources to meet that need.

The approach would not significantly alter the current policies of the Department with regard to technical data needed for internal purposes such as design verification, training, installation, operation, maintenance, and testing. The contractor would be required to deliver all technical data needed to meet these needs, and, to the extent that data constituted form, fit, or function data and manuals, it would be required to be delivered with unlimited rights. To the extent the data required to meet these needs included detailed manufacturing drawings or detailed manufacturing process data, that data would be delivered with proprietary legends restricting the Government's use of the data to meet these internal needs.

With regard to the impact of the alternative approach on reprocurement of parts, the prime contractor would be required to develop a Spare Parts Acquisition Plan and implement it during the design and early manufacture phases of the acquisition. This system would be modeled on the spare parts provisioning conferences that are presently being used by the services but it would move these conferences into the development process and place them under the responsibility of the Government program manager. By merging the present system of early identification of proprietary data with the provisioning conference system, the new methodology would focus the attention of the development contractor and the Government program manager on steps that could be taken in the development process to enhance competition.

The prime contractor, with the approval of the Government's program manager, would be required to categorize all parts and components of a system or product into three categories: (1) those for which no future competitive procurement was anticipated; (2) those for which limited competition was required because of the need for qualified vendors; and (3) those for which full and open competition was practicable. Category 3 would be the default option, and a contractor or subcontractor proposing to include an item in categories 1 or 2 would have the burden to demonstrate to the program manager's satisfaction that the Government would be protected from having to pay unreasonable reprocurement prices. The Government program manager would

make the final decision on this categorization as the development of the system progressed and the contractor would implement the decisions that were made.

With regard to parts and components in category 1, the contractor would not deliver a detailed technical data package because they would be procured in the future on a sole source basis. With regard to parts and components in category 2, the contractor would qualify and develop competitive sources using techniques such as licensing, dual development, or reverse engineering. No detailed technical data package would be delivered on these parts and components because the Government would have the qualified sources available for future procurement using limited competition.

With regard to parts and components in category 3, the contractor would be required to deliver a detailed technical data package without proprietary rights that was sufficient to permit procurement from any competent manufacturer through full and open competition. The contractor would serve as the data repository for all data on the system or product and would be required to place that data in escrow in the event it did not perform its contract obligations or went out of business.

The goal of the approach is to shift the focus of attention from the question of who owns rights to technical data to the question of where will competition be cost effective in the future life of the system being developed. The premise is that there is no need for Government and industry to fight about proprietary rights if the Government's long term needs for competition is met through proper front end planning. The methodology for implementing the new approach outlined above has the added advantage that it minimizes the amount of proprietary data that must be delivered to the Government. This ensures contractors and subcontractors of protection of their proprietary information and reduces the Government's need for systems to store, retrieve, and protect large volumes of proprietary information.

Thus, the alternative approach, as implemented through the methodology outlined above, has a number of potential advantages over the current system:

- It obtains the agreement of the prime contractor to provide nonproprietary data packages for those parts and components where full and open competition will provide quality products. This allows the Government to obtain these parts and components through full and open competition with a guarantee of a current and accurate data package to be furnished from the data repository. This ensures that the competition is effective by responding to the constant complaint of vendors that they cannot obtain accurate data packages for such parts and components on a timely basis.
- It allows contractors and subcontractors to protect commercially valuable data, thereby facilitating technology transfer, integration, and Government access to commercial technologies. This enhances the quality and value of the products and components developed for Government use and strengthens the competitiveness of the firms and the industrial base generally.

- It ensures that manufacturers of parts and components that require qualification are adequately qualified prior to the competition. This responds to the complaint that vendors that win contracts to provide such parts and components deliver defective items or are very late in performing their contracts.
- It permits an orderly transition to a totally electronic data storage and retrieval system. As design is performed more and more by computer, the logical entity to act as the repository is the designing contractor or subcontractor. Necessary Government access to this repository, with appropriate protections, will become easier as electronic systems are put in place.

A more detailed description of the methodology outlined here for implementing the alternative approach is set forth in paragraph 5.1.1.7.

5.1.1.5. Relationship to Objectives

The first recommendation expands the definition of "technical data" to include computer data bases and manuals and other publications supporting computer programs while continuing to exclude computer programs themselves from the definition. The second recommendation clarifies both sections 2320 and 2321. The third recommendation encourages the maximum use of commercial items by providing in section 2320 that DOD will normally only obtain technical data and data rights for commercial items that relate to form, fit, or function or which are necessary for operation, maintenance, installation, or training (other than detailed manufacturing or process data). This recommendation reflects the Panel's goal of encouraging firms to integrate their commercial and military work. The fourth recommendation offers one alternative approach to data which focuses not on the distribution of rights between Government and industry but rather on ways to ensure that the Government has the means to ensure procurement prices are reasonable, and that full and open competition is obtained, when appropriate.

5.1.1.6. Proposed Statute

41 U.S.C. §403. Definitions

(8) The term "technical data" means recorded information of a scientific or technical nature. It does not include computer programs but does include manuals, instructional materials and technical data formatted as a computer data base. ~~recorded information (regardless of the form or method of the recording) of a scientific or technical nature (including computer software documentation) relating to supplies procured by an agency.~~ Such term does not include computer software or financial, administrative, cost or pricing, or management data or other information incidental to contract administration.

10 U.S.C. § 2320. Rights in technical data

(a)(1) The Secretary of Defense shall prescribe regulations to define, in all contracts where technical data is specified to be delivered, the respective rights ~~legitimate interest~~ of the United

States and of a contractor or subcontractor ~~in technical data pertaining to an item or process~~. Such regulations shall be included in regulations of the DOD prescribed as part of the Federal Acquisition Regulation. Such regulations may not impair any right of the United States or of any contractor or subcontractor with respect to patents or copyrights or any other right in technical data otherwise established by law. Such regulations also may not impair the right of a contractor or subcontractor to receive from a third party a fee or royalty for the use of technical data pertaining to an item or process developed exclusively at private expense by the contractor or subcontractor, except as otherwise specifically provided by law.

(2) Such regulations shall include the following provisions:

(A) In the case of an item component, or process that is developed by a contractor or subcontractor exclusively with Federal funds (other than an item, component, or process developed under a contract or subcontract to which regulations under section 9(j)(2) of the Small Business Act (15 U.S.C. 638(j)(2)) apply), the United States shall have the unlimited right to-

(i) use technical data pertaining to the item, component, or process for any purpose; or

(ii) release or disclose the technical data to persons outside the Government or permit the use of the technical data by such persons for any purpose.

(B) Except as provided in subparagraphs (C) and (D), in the case of an item, component, or process that is developed by a contractor or subcontractor exclusively at private expense, the contractor or subcontractor may restrict the right of the United States to --(i) use technical data pertaining to the item, component, or process for manufacturing by the Government; or (ii) release or disclose technical data pertaining to the item, component, or process to persons outside the Government, or permit the use of the technical data by such persons. For purposes of this section, amounts spent for independent research and development and bid and proposal costs shall be considered to be private expense. The Secretary shall specify the manner in which other indirect costs shall be treated.

(C) Subparagraph (B) does not apply to technical data that-

(i) constitutes a correction or change to data furnished by the United States;

(ii) relates to form, fit, or function;

(iii) is necessary for operation, maintenance, installation, or training (other than detailed manufacturing or process data); or

(iv) is otherwise publicly available or has been released or disclosed by the contractor or subcontractor without restriction on further release or disclosure.

(D) Notwithstanding subparagraph (B), the United States may release or disclose technical data to persons outside the Government, or permit the use of technical data by such persons, if

(i) such release, disclosure, or use-

(I) is necessary for emergency repair and overhaul; or

(II) is a release or disclosure of technical data (other than detailed manufacturing or process data) to, or use of such data by, a foreign government that is in the interest of the United States and is required for evaluational or informational purposes;

(ii) such release, disclosure, or use is made subject to a prohibition that the person to whom the data is released or disclosed may not further release, disclose, or use such data; and

(iii) the contractor or subcontractor asserting the restriction is notified of such release, disclosure, or use.

(E) In the case of an item, component, or process that is developed in part with Federal funds and in part at private expense, the respective rights of the United States and of the contractor or subcontractor in technical data pertaining to such item, component, or process shall be established as early in the acquisition process as practicable (preferably during contract negotiations) and shall be based upon negotiations between the United States and the contractor, except in any case in which the Secretary of Defense determines, on the basis of criteria established in the regulations, that negotiations would not be practicable. The establishment of such rights shall be based upon consideration of all of the following factors:

(i) The statement of congressional policy and objectives in section 200 of title 35, the statement of purposes in section 2(b) of the Small Business Innovation Development Act of 1982 (15 U.S.C. 638 note), and the declaration of policy in section 2 of the Small Business Act (15 U.S.C. 631).

(ii) The interest of the United States in increasing competition and lowering costs by developing and locating alternative sources of supply and manufacture.

(iii) The interest of the United States in encouraging contractors to develop at private expense items for use by the Government.

(iv) Such other factors as the Secretary of Defense may prescribe.

(F) A contractor or subcontractor (or a prospective contractor or subcontractor) may not be required, as a condition of being responsive to a solicitation or as a condition for the award of a contract--

(i) to sell or otherwise relinquish to the United States any rights in technical data except-

(I) rights in technical data described in subparagraph (C); or

(II) under the conditions described in subparagraph (D); or

(ii) to refrain from offering to use, or from using, an item, component, or process to which the contractor is entitled to restrict rights in data under subparagraph (B).

(G) The Secretary of Defense may-

(i) negotiate and enter into a contract with a contractor or subcontractor for the acquisition of rights in technical data not otherwise provided under subparagraph (C) or (D), if necessary to develop alternative sources of supply and manufacture;

(ii) agree to restrict rights in technical data otherwise accorded to the United States under this section if the United States receives a royalty-free license to use, release, or disclose the data for internal Government purposes of the United States (~~including purposes of competitive procurement~~); or

(iii) ~~encourage~~ permit a contractor or subcontractor to license directly to a third party the use of technical data which the contractor is otherwise allowed to restrict, if necessary to develop alternative sources of supply and manufacture.

(3) Notwithstanding paragraph (2) above, the Secretary of Defense shall prescribe regulations for contracts for commercial items or components, where technical data is specified to be delivered by a contractor or subcontractor, which prohibit the Government from obtaining unlimited rights to technical data; provided, however, that unlimited rights may be obtained when necessary to the extent specified in paragraphs (a)(2)(C) & (D). ~~The Secretary of Defense shall define the terms "developed", "exclusively with Federal funds", and "exclusively at private expense" in regulations prescribed under paragraph (1). In defining such terms, the Secretary shall specify the manner in which indirect costs shall be treated and specify that amounts spent for independent research and development and bid and proposal costs shall not be considered to be Federal funds for the purpose of definitions under this paragraph.~~

(4) [Deleted]

(b) Regulations prescribed under subsection (a) shall require that, whenever practicable, a contract for supplies or services entered into by an agency named in section 2303 of this title [10 U.S.C. § 2303] contain appropriate provisions relating to technical data, including --

(1) defining the respective rights of the United States and the contractor or subcontractor (at any tier) regarding any technical data to be delivered under the contract;

(2) specifying the technical data, if any, to be delivered under the contract and delivery schedules for such delivery;

(3) establishing or referencing procedures for determining the acceptability of technical data to be delivered under the contract;

(4) establishing separate contract line items for the technical data, if any, to be delivered under the contract;

(5) to the maximum practicable extent, identifying, in advance of delivery, technical data which is to be delivered with a use or release restriction, as defined in section 2321(i)~~restrictions on the right of the United States to use such data;~~

(6) requiring the contractor to revise any technical data delivered under the contract to reflect engineering design changes made during the performance of the contract and affecting the form, fit, and function of the items specified in the contract and to deliver such revised technical data to an agency within a time specified in the contract;

~~(7) requiring the contractor to furnish written assurance at the time the technical data is delivered or is made available that the technical data is complete and accurate and satisfies the requirements of the contract concerning technical data;~~

~~(7)(8) establishing remedies to be available to the United States when deliverable technical data required to be delivered or made available under the contract is found to be incomplete or inadequate or to not to satisfy the requirements of the contract concerning technical data; and~~

~~(8)(9) authorizing the head of the agency to withhold payments under the contract (or exercise such other remedies as the head of the agency considers appropriate) during any period if the contractor does not meet the requirements of the contract pertaining to the delivery of technical data.~~

~~(e) Nothing in this section or in section 2305(d) of this title prohibits the Secretary of Defense from—~~

~~(1) prescribing standards for determining whether a contract entered into by the DOD shall provide for a time to be specified in the contract after which the United States shall have the right to use (or have used) for any purpose of the United States all technical data required to be delivered to the United States under the contract or providing for such a period of time (not to exceed 7 years) as a negotiation objective; or~~

~~(2) prescribing reasonable and flexible guidelines, including negotiation objectives, for the conduct of negotiations regarding the respective rights in technical data of the United States and the contractor.~~

(c) The Secretary of Defense shall by regulation establish programs which provide domestic business concerns an opportunity to purchase or borrow replenishment parts from the United States for the purpose of design replication or modification, to be used by such concerns in the submission of subsequent offers to sell the same or like parts to the United States. Nothing in this subsection limits the authority of the head of an agency to impose restrictions on such a program related to national security consideration, inventory needs of the United States, the improbability of future purchases of the same or like parts, or any additional restriction otherwise required by law.

10 U.S.C. § 2321. Validation of proprietary data restrictions

(a) Contracts covered by section. This section applies to any contract for supplies or services entered into by the DOD that includes provisions for the delivery of technical data.

(b) Contractor justification for restrictions. A contract subject to this section shall provide that a contractor under the contract and any subcontractor under the contract at any tier shall be prepared to furnish to the contracting officer a written justification for any use or release restriction (as defined in subsection (i)) asserted by the contractor or subcontractor.

(c) Review of restrictions.

(1) The Secretary of Defense shall ensure that there is a thorough review of the appropriateness of any use or release restriction asserted with respect to technical data to be delivered by a contractor or subcontractor at any tier under a contract subject to this section. This review need not be conducted when the Secretary of Defense determines that the Government will have no requirement for rights greater than permitted by any asserted restriction.

(2) The review of an asserted use or release restriction under paragraph (1) shall be conducted before the end of the three year period beginning on the later of

(A) the date on which final payment is made on the contract under which the technical data is required to be delivered; or

(B) the date on which the technical data is delivered under the contract.

(d) Challenges to restrictions.

(1) The Secretary of Defense may challenge a use or release restriction asserted with respect to technical data by a contractor or subcontractor at any tier under a contract subject to this section if the Secretary finds that-

(A) reasonable grounds exist to question the current validity of the asserted restriction; and

(B) the continued adherence [adherence] by the United States to the asserted restriction would make it impracticable to procure the item to which the technical data pertain competitively at a later time.

(2)(A) A challenge to an asserted use or release restriction may not be made under paragraph (1) after the end of the three-year period described in subparagraph (B) unless the technical data involved --

(i) are publicly available;

(ii) have been furnished to the United States without restriction; or

(iii) have been otherwise made available without restriction.

(B) The three-year period referred to in subparagraph (A) is the three-year period beginning on the later of --

(i) the date on which final payment is made on the contract under which the technical data are required to be delivered; or

(ii) the date on which the technical data are delivered under the contract.

(3) If the Secretary challenges an asserted use or release restriction under paragraph (1), the Secretary shall provide written notice of the challenge to the contractor or subcontractor asserting the restriction. Any such notice shall --

(A) state the specific grounds for challenging the asserted restriction;

(B) require a response within 60 days justifying the current validity of the asserted restriction; and

(C) state that evidence of a justification described in paragraph (4) may be submitted.

(4) It is a justification of an asserted use or release restriction challenged under paragraph (1) that, (A) the DOD and the contractor or subcontractor agreed to a predetermination of rights; or (B) within the three-year period preceding the challenge to the restriction, the DOD validated a restriction identical to the asserted restriction if --

(i) ~~(A)~~ such validation occurred after a challenge to the validated restriction under this subsection; and

(ii) ~~(B)~~ the validated restriction was asserted by the same contractor or subcontractor (or a licensee of such contractor or subcontractor).

(e) Time for contractors to submit justifications. If a contractor or subcontractor asserting a use or release restriction submits to the contracting officer a written request, showing the need for additional time to comply with the requirement to justify the current validity of the asserted restriction, additional time to adequately permit the submission of such justification shall be provided by the contracting officer as appropriate. If a party asserting a restriction receives notices of challenges to restrictions on technical data from more than one contracting officer, and notifies each contracting officer of the existence of more than one challenge, the contracting officer initiating the first in time challenge, after consultation with the party asserting the restriction and the other contracting officers, shall formulate a schedule of responses to each of the challenges that will afford the party asserting the restriction with an equitable opportunity to respond to each such challenge.

(f) Decision by contracting officer.

(1) Upon a failure by the contractor or subcontractor to submit any response under subsection (d)(3), the contracting officer shall issue a final decision pertaining to the validity of the asserted restriction.

(2) After review of any justification submitted in response to the notice provided pursuant to subsection (d)(3), the contracting officer shall, within 60 days of receipt of any justification submitted, issue a final decision or notify the party asserting the restriction of the time within which a final decision will be issued.

(g) Claims. If a claim pertaining to the validity of the asserted restriction is submitted in writing to a contracting officer by a contractor or subcontractor at any tier, such claim shall be considered a claim within the meaning of the Contract Disputes Act of 1978 (41 U.S.C. 601 et seq.) without regard to the requirement to state a sum certain.

(h) Rights and liability upon final disposition.

(1) If, upon final disposition, the contracting officer's challenge to the use or release restriction is sustained --

(A) the restriction shall be canceled; and

(B) if the asserted restriction is found not to be substantially justified, the contractor or subcontractor asserting the restriction shall be liable to the United States for payment of the cost to the United States of reviewing the asserted restriction and the fees and other expenses (as defined in section 2412(d)(2)(A) of title 28 [28 U.S.C. § 2412(d)(2)(A)]) incurred by the United States in challenging the asserted restriction, unless special circumstances would make such payment unjust.

(2) If, upon final disposition, the contracting officer's challenge to the use or release restriction is not sustained --

(A) the United States shall continue to be bound by the restriction; and

(B) the United States shall be liable for payment to the party asserting the restriction for fees and other expenses (as defined in section 2412(d)(2)(A) of title 28 [28 U.S.C. § 2412(d)(2)(A)]) incurred by the party asserting the restriction in defending the asserted restriction if the challenge by the United States is found not to be made in good faith.

(i) Use or release restriction defined. In this section, the term "use or release restriction", with respect to technical data delivered to the United States under a contract subject to this section, means a restriction by the contractor or subcontractor on the right of the United States--

(1) to use such technical data; or

(2) to release or disclose such technical data to persons outside the Government or permit the use of such technical data by persons outside the Government.

5.1.1.7. A Methodology for Implementing the Alternative Technical Data Approach

During the competition for the development contract for a new system, the Request for Proposals would require competing prime contractors to present a Spare Parts Acquisition Plan. The plan would have to show what organization they would put in place: (1) to work with the Government program office to classify each component and part of the system during the development and early production phases, and (2) to obtain competition when it was required. They would also be expected to provide an overall appraisal of the amount of competition that they could develop during development of the system. The quality of this Spare Parts Acquisition Plan would normally be an evaluation factor in the source selection decision.

After the contract was awarded, the contractor would begin to classify all parts and components as the design progressed. If any of the subcontracted components contained repairable parts, the subcontractor could be tasked with the same classification obligation. Government employees would work closely with the contractor in this process and, as in the case of current spare parts provisioning conferences, would make the final decision on the proper classification of each part or component. They would have full access to all data, proprietary or nonproprietary, necessary fulfill their responsibilities in the process. The goal of the system would be to identify three categories of parts and components: (1) those for which no future competitive procurement was anticipated, (2) those for which limited competition was required because of the need for qualified sources, and (3) those for which full and open competition was practicable.

The initial determination would identify those parts and components which fell into category 1, where a life cycle cost analysis indicated that future competition would be impracticable or unproductive. This would include parts and components where there would be little need for replacement during use of the system, where a very large capital investment would be needed for manufacturing, or where there was very high sensitivity of the part or technology being incorporated in the item indicating that there would be only one suitable and cost effective source, or where considerations of criticality or proprietary rights precluded reprourement from

other sources. In each case, the contractor (or subcontractor) would prepare a detailed analysis, including life cycle cost where applicable, demonstrating that the part or component was properly placed in category 1 and the Government program manager would make the final decision to place the part or component in this category. When the part or component was placed in category 1, the contractor would not be required to deliver a detailed Technical Data Package to the Government as part of performance of the contract. However, the classification of the parts and components in this category would be subject to reconsideration whenever either the contractor or the Government determined that the circumstances had changed. As long as a part or component remained in category 1, additional parts or components would be procured by the Government using sole source procurement procedures.

With regard to those parts and components determined not to fall in category 1, there would be a presumption that they fell in category 3. This category would include the majority of parts and components which could clearly be manufactured by any competent company without special qualification. The new methodology would require the contractor to prepare a list of such parts and components and to develop and deliver (when needed for reprocurement) a nonproprietary Technical Data Package for them that was sufficiently detailed to support full and open competition. This Technical Data Package would be kept current in the contractor's data repository and would be available to the Government at any time on short notice. These Technical Data Packages would be used by the Government to procure these parts and components through normal procurement procedures as is done under current spare parts procurements.

With regard to any part or component that the contractor believed should be placed in category 2 because of the need for qualification of sources, it would have to present justification for this determination to the Government program manager who would make the final decision placing a part or component in this category and the number of sources to be qualified. Once it had been determined that a part or component was in category 2, the contractor would have the primary responsibility for developing and qualifying those competitive sources. As long as the sources were provided and performed, the contractor would not be required to deliver a detailed Technical Data Package to the Government but, as discussed earlier, the Government would have full access to all detailed data for internal purposes such as design review, inspection, or other necessary governmental purposes.

The contractor would be expected to develop at least two competitive sources for parts and components in category 2 through normal prime contractor qualification and procurement techniques. If the part or component was to be designed and manufactured by the contractor, the contractor would be contractually required to develop one or more of the competitive sources using the least expensive technique -- normally licensing another manufacturer. If the part or component was to be designed and manufactured by a subcontractor to a prime contractor's form, fit, or function specification, the contractor would normally request that subcontractor to agree to license another manufacturer. If the subcontractor was unwilling to license competitors, the contractor could seek to include the item in category 1, provided the Government was adequately protected under sole source procedures or some other form of protection, such as a long-term pricing agreement with that subcontractor or using a form, fit, or function specification to develop

two or more subcontractors. In the rare case where it was believed that the part or component could be bought in the future from another vendor using reverse engineering techniques, a single subcontract could be awarded in the early program phases with the intent to subsequently obtain competition through the use of this technique. In any case where competition was developed through licensing, the contractor or subcontractor would be paid a technology transfer fee, to be negotiated on a case-by-case basis by the contracting officer and the contractor or subcontractor. Once the competitive sources had been qualified and developed, parts and components would be procured from them by the Government using normal procurement procedures as is done in current spare parts procurements.

This system would require the constant attention of the prime contractor and the Government program manager to ensure that the parts and components were placed in the proper category and that each decision was fully substantiated by analytical data supporting the life cycle cost analysis and the technical decision that certain parts and components were of sufficient criticality or complexity to require procurement from qualified vendors. In all cases, the final decision of the categorization of parts and components would be made by the Government program manager but the contractor would be permitted to seek review of a decision to place a part or component in category 2 by the Assistant Secretary for Acquisition of the military service.

The system would be dynamic rather than static. Thus, any initial categorization of parts or components could be changed by the Government program manager as additional information became available. For example, a component initially placed in category 1 might be reclassified into category 2 or 3 if later usage information indicated that there would be need to acquire a considerably greater number of components than had been originally projected. Similarly, a component initially placed in category 2 might be reclassified into category 1 if the cost of developing and qualifying a competitive source was so great that it was determined by life cycle cost analysis that competition was not economical.

With regard to data necessary for modification of systems or significant subsystems, this methodology would require the development contractor to assist the Government in obtaining competition when the agency had determined that modification of the system or subsystem should be acquired competitively. At the direction of the Government, the contractor would qualify competitive modification sources, license modification sources providing necessary technical assistance, or make a data package available to the Government to permit procurement of the modification. If proprietary data were included in this package or sources were licensed, an appropriate fee would be negotiated to compensate the contractor or its subcontractors for transferring the technology. The same provisions would flow down to subcontractors furnishing significant subsystems.

Finally, the contractor would normally be the data repository for all technical data applicable to the system. As such, for category 3 type parts the contractor would be required to furnish such data to the Government for internal use or for competitive reprourement of parts and components whenever a procurement was imminent. The contractor and subcontractor would also be required to hold a full technical data package for all category 1, 2, and 3 parts or components in escrow for the Government in the event that the contractor failed to perform. The

contractor would be permitted to use subcontractors as data repositories when that was a more practicable means of maintaining the data in a current status. This escrow account would permit the Government to use the data to meet its needs if the contractor or subcontractor failed to perform its obligations under the contract, or terminated its business as a Government contractor or subcontractor. Decisions of the Government to use the escrow would be subject to appeal by the contractor or subcontractor under accelerated procedures. When the data was to be used for competitive reprourement, the contractor would be required to furnish a fully adequate technical data package in a short period of time -- to ensure that accurate data is available to support the competitive reprourement process.

5.2. Technology Transfer

5.2.0. Introduction

The Panel reviewed the three major statutes that have been enacted to promote the transfer of technology from the Government to the private sector. These statutes are the University, Small Business Patent Policy Act, Pub. L. No. 96-517, the Federal Technology Transfer Act, Pub. L. No. 99-502, and the Stevenson-Wydler Technology Innovation Act, Pub. L. No. 96-480. The Panel found that DOD has taken steps to implement all of these statutes -- indicating that a successful start has been made. The Panel also identified several small improvements that could be made to two of these statutes to enhance their effectiveness.

The University, Small Business Patent Policy Act promotes technology transfer by permitting small businesses and nonprofit organizations to retain title in inventions made in the performance of Government contracts if they elect to file for a patent. This policy leaves the commercial rights in such inventions in the hands of the organization where the invention was made -- under the theory that the organization has the strongest motivation to utilize the invention in the commercial marketplace. The Panel found that this policy has been fully implemented and that it works well. (The Panel found one major university that had licensed over 50% of its inventions to commercial companies.) However, the Panel found that provisions of the statute governing the time for reporting inventions as well as the period for electing to file were lax -- with the result that too little time was given to DOD agencies to file for patent protection in cases where the small business or nonprofit organization elected not to file. While there are probably not a large number of situations where agency personnel would find that a patent application should be filed to preserve valuable commercial or Government rights, the Panel recommends some minor changes to the statute which would make improvements in this area.

First, the Panel recommends that the statute be amended to require contractors to disclose each subject invention within a reasonable time, but in any event, prior to publication. This will enhance the ability of the contractor and the Federal agency, if the contractor elects not to retain title, to file for a patent before the time period for filing expires. Second, the Panel recommends that the law be amended to provide that contractors specifically state their election to retain title to a subject invention in the U.S. and in any foreign country. The purpose of this recommendation is to require contractors to disclose their intentions on filing abroad. If a contractor only planned on filing in the U.S., then the Federal agency would have an opportunity to file the patent abroad, thereby protecting domestic technologies from foreign competitors. Third, in order to provide the Federal agency sufficient time to review an invention and have a patent application prepared and filed, the Panel recommends that the period of election may be shortened by the Federal agency to a date that is not more than four months prior to the end of the statutory period. Lastly, to encourage more timely filing, the Panel recommends that the statute provide that whenever contractors elect to retain title, they will file a patent application within one year of election. The contractor may, however, have additional time to file upon approval by the Federal agency. Timely filing of patent applications will hasten the entry of new technologies into the marketplace.

The Federal Technology Transfer Act directly promotes technology transfer by permitting Federal laboratories to enter into cooperative research and development agreements (CRADAs) in the private sector. The Panel found that DOD laboratories are beginning to utilize this statute but that there are two impediments to its full utilization. First, under current law, although Federal laboratories may patent inventions of their employees, they may not claim copyright protection in works of their employees. This reduces the protection that the laboratories have over computer programs written by their employees. The result is a reduction of the laboratories' ability to enter into cooperative research and development agreements because many organizations in the private sector will not attempt to move technology into the private sector without protection of the intellectual property underlying that technology. The Panel has concluded that the dichotomy between patent protection and copyright protection is illogical and does not serve the goal of maximizing technology transfer. The Panel, therefore, recommends that Federal laboratories be permitted to claim copyright in computer programs when those programs can promote a cooperative research and development agreement. The Panel has crafted its proposed statutory change to ensure that the Government continues to have no right to claim copyright in other types of Government information which should be freely available to the public.

Second, the Panel recommends that section 3710a of the Federal Technology Transfer Act be amended to provide that employees or former employees may assist contractors in commercializing inventions, notwithstanding that such employees may have received, or subsequently be entitled to receive, royalties pursuant to section 3710c. This will clarify that such royalties, in and of themselves, do not constitute a conflict of interest. Recognizing that there are some situations where royalties should be considered a conflict of interest, the proposed amendment includes a limiting proviso that royalties may be considered a financial interest if the inventor or author participated in the selection of the collaborating party to the cooperative research and development agreement or in the negotiation of the licensing agreement. This recommendation should encourage Federal employees to work with contractors in the commercialization of inventions or copyrighted works.

The Stevenson-Wydler Technology Innovation Act establishes the program of enabling Federal laboratories to transfer technology to the private sector. The Panel makes no recommendations for changes to this Act.

Lastly the Panel recommends the repeal of 10 U.S.C. section 2363, which was enacted by the Department of Defense Authorization Act of 1986. The Panel found that this law was redundant with the Stevenson-Wydler Technology Innovation Act and, therefore, is unnecessary.

5.2.1. 15 U.S.C. §§ 3701 - 3710d

Technology Innovation

5.2.1.1. Summary of the Law

Chapter 3 of Title 15, U.S. Code entitled "technology innovation" encompasses two large acts. These Acts are the Stevenson-Wydler Technology Innovation Act of 1980 (15 U.S.C. §§ 3701-3710) and the Federal Technology Transfer Act of 1986 (15 U.S.C. §§ 3710a-3710d). The following discussion focuses on the later Act with recommendations to enhance its effectiveness.

Section 3710a authorizes each Federal agency to permit the director of any of its Government-operated Federal laboratories, and to the extent provided in an agency-approved joint work statement, the director of any of its Government-owned, contractor-operated (GOCO) laboratories to enter into cooperative research and development agreements (CRADAs) on behalf of such agency with other Federal agencies; units of state or local governments; industrial organizations; public and private foundations; nonprofit organizations; or other persons.¹ The law also permits the director to negotiate licensing agreements for inventions made or other intellectual property developed at the laboratory and other inventions or other intellectual property that may be voluntarily assigned to the Government.²

Under the CRADA, the laboratories may:

(1) accept, retain, and use funds, personnel, services, and property from collaborating parties and provide personnel, services, and property to collaborating parties;

(2) grant or agree to grant in advance, to a collaborating party, patent licenses or assignments, or options thereto, on any invention made in whole or in part by a laboratory employee under the agreement, retaining a nonexclusive, nontransferable, irrevocable, paid-up license to practice the invention or have the invention practiced throughout the world by or on behalf of the

¹15 U.S.C. § 3710a(a)(1).

²15 U.S.C. § 3710a(a)(2). The Army Intellectual Property Law Division pointed out that the Technology Transfer Act of 1986, as amended, allows the Government to license "other intellectual property." They surmise that the only reasonable inference to "other intellectual property" is that it includes copyrights, as it is a type of intellectual property. The division, therefore, concluded that the Government already has the ability statutorily to license copyrighted material. They recommended that the FAR and DFARS policy be changed to allow the contracting agency the ability to require the contractor to assign all copyright interest to the Government, unless the contractor can demonstrate a plan for commercialization. The Government then can license the copyright under the provisions of the Technology Transfer Act, thereby increasing the scope of commercialization.

Government and such other rights as the Federal laboratory deems appropriate;

(3) waive, subject to reservation by the Government of a nonexclusive, irrevocable, paid-up license to practice the invention or have the invention practiced throughout the world by or on behalf of the Government, in advance, in whole or in part, any right of ownership which the Federal Government may have to any subject invention made under the agreement by a collaborating party or employee of a collaborating party;

(4) determine rights in other intellectual property developed under an agreement entered into under a CRADA; and

(5) to the extent consistent with any applicable agency requirements and standards of conduct, permit employees or former employees of the laboratory to participate in efforts to commercialize inventions they made while in the service of the United States.³

To encourage technology development, section 3710b provides rewards for inventions, innovations, computer software, or other outstanding scientific or technological contributions of value to the U.S. made by its scientific, engineering, and technical personnel.⁴ This section also rewards such personnel for exemplary activities that promote the domestic transfer of science and technology development within the Federal Government.⁵

Section 3710c directs that any royalties or other income received by a Federal agency from a licensing or assignment of inventions under agreements entered into by Government-operated Federal laboratories and inventions of Government-operated Federal laboratories shall be retained by the agency whose laboratory produced the invention.⁶ Under this provision, at least 15% of the royalties or other income that the agency received on account of the invention must be paid to the inventor.⁷ The balance of the royalties or other income must be transferred by the agency to its Government-operated laboratories, with the majority share of the royalties or other income from the invention going to the laboratory where the invention occurred.⁸

Section 3710d allows a Government employee, or former employee who made an invention during the course of employment with the Government, to retain title to the invention if

³15 U.S.C. § 3710a(b).

⁴15 U.S.C. § 3710b.

⁵*Id.*

⁶15 U.S.C. § 3710c.

⁷*Id.*

⁸*Id.*

the Federal agency does not intend to file for a patent application or otherwise promote commercialization of the invention.⁹

5.2.1.2. Background of the Law

As stated above, this chapter consists of two large Acts. The Stevenson-Wydler Technology Innovation Act of 1980¹⁰ was intended to address a perceived decline in industrial technological innovation by attempting to build links between the sources of technological innovation (universities and Federal laboratories) and the consumers of that information (industry and state and local governments).¹¹ The Federal Technology Innovation Act of 1986 permitted Government-operated Federal laboratories to enter into CRADAs.¹² A CRADA is defined as "an instrument that can be executed without triggering the many legal conditions that are placed on the other statutory methods [contracts, cooperative agreements, grants] under which the Federal Government may enter into legal agreements."¹³ The National Defense Authorization Act for Fiscal Years 1990 and 1991, Pub. L. No. 101-189, extended the authority contained in the Federal Technology Innovation Act to GOCO laboratories.¹⁴

The purpose of these Acts was to establish organizations in the executive branch to study and stimulate technology; promote technology development through the establishment of centers for industrial technology; stimulate improved use of federally funded technology developments by state and local governments and the private sector; provide encouragement for the development of technology transfer through rewards; and encourage the exchange of scientific and technical personnel among academia, industry, and Federal laboratories.¹⁵

Congress expressed concern that trends such as the declining real Federal research and development (R&D) expenditure, the decreasing domestic-origin patents, and the declining ratio of R&D expenditure to the gross national product indicated a significant decline in U.S. innovative performance.¹⁶ The House Report to the Stevenson-Wydler Technology Innovation Act stated that technological innovation impacts both on domestic considerations as well as on the U.S. position in the international marketplace.¹⁷ In particular, technological innovation plays a vital role in economic growth and contributes to increased productivity and efficiency.¹⁸ The report also stated that testimony at congressional hearings had repeatedly highlighted the lack of a national policy as hindering technology transfer within the Federal Government.¹⁹

⁹15 U.S.C. § 3710d.

¹⁰Stevenson-Wydler Technology Innovation Act of 1980, Pub. L. No. 96-480, 94 Stat. 2311 (codified as amended at 15 U.S.C. § 3701 -3715).

¹¹H.R. Rep. No. 1199, 96th Cong., 2d Sess. 3 (1980), *reprinted in* 1980 U.S.C.C.A.N. 4893.

¹²H.R. Conf. Rep. No. 331, 101st Cong., 1st Sess. 757 (1989), *reprinted in* 1989 U.S.C.C.A.N. 1146.

¹³*Id.*

¹⁴National Defense Authorization Act for Fiscal Years 1990 and 1991, Pub. L. No. 101-189, 103 Stat. 1352.

¹⁵H.R. Rep. No. 1199, 96th Cong., 2d Sess. 1 (1980), *reprinted in* 1980 U.S.C.C.A.N. 4892.

¹⁶H.R. Rep. No. 1199, 96th Cong., 2d Sess. 6-8 (1980), *reprinted in* 1980 U.S.C.C.A.N. 4896-4898. *See also*, S. Rep. No. 781, 96th Cong., 2d Sess. (1980).

¹⁷*Id.*

¹⁸*Id.*

¹⁹*Id.*

5.2.1.3. Law in Practice

In review of this chapter, the Panel found that DOD has taken steps to implement both the Stevenson-Wydler Technology Innovation Act and the Federal Technology Transfer Act. Because Stevenson-Wydler focuses on establishing centers to stimulate technology and is only remotely related to acquisition, the Panel made no recommendations to amend this Act. In regards to the Federal Technology Transfer Act, the Panel found that the DOD laboratories are beginning to utilize the provisions of the Act. There are, however, two impediments to its full utilization. First, under current law, although Federal laboratories may patent inventions of their employees, they may not claim copyright protection in works of their employees. This reduces the protection that the laboratories have over computer programs written by their employees. Second, the Act also contains a provision for a dual employee award system of royalty sharing and cash awards. There is a concern that the royalty received by the inventor under this provision is a financial interest, thereby subjecting the inventor to conflict of interest rules.

Concerned with the lack of copyright protection for computer software, Congresswoman Morella (R., MD) introduced H.R. 191.²⁰ This bill would allow copyright protection for Government computer software if the software is developed "in the course of work under a cooperative research and development agreement." Specifically, the bill amends the U.S. copyright law in order to authorize the Federal Government to obtain copyrights in computer software developed by Federal employees and to authorize the Federal Government to grant intellectual property rights for computer software to a collaborating party in a CRADA or under the provisions of the National Aeronautics Space Administration Act.²¹ The intent of this legislation is to increase the transfer of technology from the Federal Government to the private sector, thereby increasing U.S. competitiveness in the international market.²² The bill was referred jointly to the Committee on Science, Space, and Technology and the Committee on the Judiciary.

The Senate version of the bill deletes the language pertaining to copyright protection of pre-existing software.²³ This variance from the House bill may have been the result of testimony made by the Institute of Electrical and Electronics Engineers, Inc. (IEEE) before the House Subcommittee on Intellectual Property and Judicial Administration. IEEE argued before the subcommittee that protecting pre-existing software would be comparatively disadvantageous to newcomers because they would have to pay for this software while those who were already in the market would not.²⁴

The policy behind the original copyright legislation²⁵ was to ensure easy and inexpensive public access to Federal documents. At the time of the legislation, most of what the Federal

²⁰H.R. Rep. 191, 102d Cong., 1st Sess. (1991).

²¹*Id.*

²²See H.R. Rep. 415, 102d Cong., 1st Sess., pt. 1 at 3 (1991).

²³S. Rep. 1581, 102d Cong., 1st Sess. (1991).

²⁴*Id.*

²⁵The Copyright Act of 1909, Pub. L. No. 66-319, Ch. 320, prohibited the Federal Government from copyrighting any of its materials. (As a historical note, Congress enacted a statute forbidding the Federal Government to claim copyright in its own works as early as 1895.) Since 1909, this prohibition has been codified in the copyright laws.

Government published were laws, regulations, and policy letters. Modern technology, however, brought about a "new" kind of writing known as a computer program. Although not a writing in the traditional sense, computer programs fell under the copyright umbrella along with other writings. Consequently, because copyright laws do not protect writings of the U.S., they also do not protect computer programs. As a result, this law may be hindering commercialization of certain federally developed computer software.

5.2.1.4. Recommendations and Justification

I

Amend 15 U.S.C. § 3710a to provide that each Federal agency may secure copyright registration on behalf of the U.S. as author or proprietor in any computer program and instructions necessary for its use (except data, data bases, and data base retrieval programs) prepared by civilian and/or military employees of the U.S. Government as part of their official duties in the course of work under, or related to, a CRADA.

II

Amend 15 U.S.C. § 3710a to establish the procedures for securing copyright, licensing, and sharing royalties with employees for copyrightable works.

This proposal largely parallels the Morella bill that would allow copyright protection of computer programs developed "in the course of work under a cooperative research and development agreement." The proposal is broader than the Morella bill in that it includes copyrightable works that are related to a CRADA. The intent of permitting copyright protection in the course of work performed under, or related to, a CRADA is to increase the transfer of technology from the Federal Government to the private sector, thereby increasing U.S. competitiveness in the international market. In many cases, the most effective way to transfer computer software technology is by copyrighting and exclusively licensing it.

Several studies cited the Federal copyright prohibition as one of the major impediments to technology transfer. For instance, a March 1988 survey by the General Accounting Office (GAO) stated that businesses do not have an incentive to fully develop and market Federal computer software programs because such programs are publicly disseminated.²⁶ This dissemination often

The law was reenacted in the 1976 Copyright Act, Pub. L. No. 94-533, 90 Stat. 2541, when present section 105 was adopted. The House Report to the Act specifically stated that the intent of the law was to place all works of the United States, published or unpublished, in the public domain. See H. Rep. 1476, 94th Cong., 2d Sess., at 59 (1976), reprinted in 1976 U.S.C.C.A.N. 5673.

²⁶U.S. GAO, *Technology Transfer: Constraints Perceived by Federal Laboratory and Agency Officials*, RCED-88-116BF at 3 (Mar. 1988).

provides foreign business competitors equal access to the software. Moreover, Federal employees who develop computer software do not have the same incentives to commercialize it as those who make inventions because they cannot share in royalty income.²⁷ Another report by GAO in 1989 cited the lack of copyright protection as a significant barrier to the effective implementation of the Federal Technology Transfer Act of 1986.²⁸

The Federal Technology Transfer Act of 1986 directed the Secretary of Commerce to examine the issue of computer software and report to Congress. That report, dated June 1988, found that:

[M]any agencies are already reporting that the inability of their employees to have copyright protection for valuable computer software is limiting the success of their efforts. Companies are rightly afraid that if Federal employees create software with their support it will fall into the public domain. Thus, foreign competitors could obtain for nothing important discoveries largely funded by our private sector.

In testimony before the House Subcommittee on Intellectual Property and Judicial Administration on H.R. 191, the Assistant Secretary of Commerce for Technology Policy stated that "firms simply will not undertake the risk of developing commercial applications for federally developed software without copyright protection."²⁹ In support of this statement, the Assistant Secretary gave examples of lost opportunities cited by agency officials which included NIST-developed software that made use of innovative graphical procedures for designing and analyzing experiments; USDA-developed software that predicts the growth of food-borne pathogens and software that can be used in making decisions about irrigating, spraying, and fertilizing crops; and USAF-developed software for training people to use and maintain sophisticated equipment as well as software that can be used in hospital administration.³⁰

The strongest opposition against allowing copyright protection for computer programs appears to come from the Information Industry Association (IIA). IIA claims that copyright protection for computer programs will lead to the demise of the public's access to Government information.³¹ This assertion attempts to blur the distinction between public access to Government information and copyright protection of computer programs. Valuable computer program technology can be protected without impairment to the Freedom of Information Act (FOIA).

²⁷*Id.*

²⁸U.S. GAO, *Technology Transfer: Implementation Status of the Federal Technology Transfer Act of 1986*, RCED-89-154 at 37 (May 1989).

²⁹Statement of Deborah L. Wince-Smith, Assistant Secretary of Commerce for Technology Policy on H.R. 191, The Technology Transfer Improvements Act, before the Subcommittee on Intellectual Property and Judicial Administration Committee on the Judiciary, U.S. House of Representatives at 7 (May 6, 1992).

³⁰*Id.* at 7 & 8.

³¹See Statement of Steven J. Metalitz, vice-president and general counsel to Information Industries Association, before the Subcommittee on Intellectual Property and Judicial Administration Committee on the Judiciary, U.S. House of Representatives (May 6, 1992).

In support of their position, IIA states that it is often hard to distinguish between programs and data.³² Copyright over software, therefore, readily translates to the ability to control access to the underlying data.³³ Although a valid concern, the proposed statutory language alleviates this fear. The proposed language, "data, data bases, or data base retrieval programs," refers to programs which are not created or used as a primary source of information about organizations, policies, functions, decisions, or procedures of a Government component. Thus, with this protective language in place, Government computer data bases, and the computer programs necessary to access those data bases, would continue to be available under the FOIA.

Opponents to H.R. 191 also state that the bill is merely an effort to increase the compensation paid to Federal employees above the limits set by law. This argument overlooks fairness to the Federal employee and the notion of encouraging technology transfer in the Federal laboratories. The bulk of any royalties received by the laboratories would be used to support Federal employees' research work, thereby leveraging Federal expenditures which will benefit U.S. taxpayers.

The procedural amendments to section 3710a are necessary in order to implement the proposal to allow copyright protection of works under, or related to, a CRADA. The recommended changes to section 3710a establish procedures for securing copyright, licensing, and sharing royalties with employees for copyrightable works. These procedural recommendations parallel the procedures already in existence for inventions.

III

Amend 15 U.S.C. § 3710a(b)(5) to permit employees or former employees of the laboratory to commercialize inventions they made or works they copyrighted while in the service of the U.S., notwithstanding that such employees may have received royalties pursuant to 15 U.S.C. § 3710(c); provided, however, that such inventor or author did not participate in the selection of the collaborating party to the cooperative research and development agreement or in the negotiation of the licensing agreement.

The Federal Technology Transfer Act of 1986 recognized that "technology transfer will be enhanced if Government engineers and scientists have some financial motivation to work actively to move their inventions and discoveries into the commercial market."³⁴ The 1986 Act amended Stevenson-Wydler by establishing two types of financial motivation. First, section 3710b mandates a cash awards program. Second, section 3710c requires agencies to pay their Government engineers and scientists "at least 15%" of any license income received on inventions. It was thought that these two financial incentives would motivate employees to advocate

³²*Id.* at 9.

³³*Id.*

³⁴Ralph C. Nash, Jr. & John Cibinic, *Transfer of Technology from the Government to the Private Sector*, 6 N&CR ¶ 40 (July 1992).

exploitation of their technologies. The legislative history to the 1986 Act notes that "providing a predictable, guaranteed reward from royalties to federally employed inventors provides a strong incentive to report, develop, and help license inventions with commercial potential."³⁵

The legislative history, however, is ambiguous as to the application of the conflict of interest statutes to Federal employees who receive additional compensation pursuant to the royalty-sharing component of the Act.

The Department of Commerce has stated that royalties are no more than a reward for developing the invention. Thus, royalties should not be considered a financial interest within the provisions of 18 U.S.C. § 208. The Office of Government Ethics is presently reviewing two cases on this issue.

A conflict of interest can only arise when: (1) there is a flow of royalties; and (2) the employee has the ability to work for the contractor. The only authority which allows an employee to work for a contractor is 15 U.S.C. § 3710(a)(b)(5). This provision provides:

to the extent consistent with any applicable agency requirements and standards of conduct, permit employees or former employees of the laboratory to commercialize inventions they made while in the service of the U.S.

As a practical matter, a potential conflict of interest can only arise under a CRADA. Contractors desire to have the inventor assist in developing the technology for the commercial market because of the inventor's expertise. Because the goal is to move as much technology into the commercial market as possible, inventors should be encouraged to participate in assisting contractors. The authority permitting employees to work for contractors is broad. It appears that the drafters of the legislation intended to permit inventors to assist contractors in commercializing technologies. Royalties received for such assistance should not, in and of themselves, be considered a conflict of interest. That assertion would thwart the intentions of the Act by discouraging inventors from participating in the commercialization of their invention. Recognizing that there are some situations where royalties should be considered a conflict of interest, the proposed amendment includes a limiting proviso that royalties may be considered a financial interest if the inventor or author participated in the selection of the collaborating party to the cooperative research and development agreement or in the negotiation of the licensing agreement.

5.2.1.5. Relationship to Objectives

The proposed recommendations will facilitate commercial market access to Government developed technologies.

³⁵H.R. Conf. Rep. No. 953, 99th Cong., 2d Sess. 20 (1986).

5.2.1.6. Proposed Statute

15 U.S.C. § 3710a. Cooperative research and development agreements

(a) General Authority. Each Federal agency may permit the director of any of its Government-operated Federal laboratories, and, to the extent provided in an agency-approved joint work statement, the director of any of its Government-owned, contractor-operated laboratories:

(1) to enter into cooperative research and development agreements on behalf of such agency (subject to subsection (c) of this section) with other Federal agencies; units of State or local government; industrial organizations (including corporations, partnerships, and limited partnerships, and industrial development organizations); public and private foundations; nonprofit organizations (including universities); or other persons (including licensees of inventions or copyrighted works owned by the Federal agency); and

(2) to negotiate licensing agreements under section 207 of Title 35 or under other authorities (in the case of a Government-owned, contractor-operated laboratory, subject to subsection (c) of this section) for inventions made or other intellectual property developed at the laboratory and other inventions or other intellectual property that may be voluntarily assigned to the Government.

(3) to negotiate licensing agreements following the criteria set forth in section 207 of Title 35 or under other authorities (in the case of a Government-owned, contractor-operated laboratory, subject to subsection (c) of this section) for copyrighted works owned by the Government pursuant to section (h) or copyrighted works that may be voluntarily assigned to the Government.

(b) Enumerated authority. Under agreements entered into pursuant to subsection (a)(1), a Government-operated Federal laboratory, and, to the extent provided in an agency-approved joint work statement, a Government-owned, contractor-operated laboratory, may (subject to subsection (c) of this section):

(1) accept, retain, and use funds, personnel, services, and property from collaborating parties and provide personnel, services, and property to collaborating parties;

(2) grant or agree to grant in advance, to a collaborating party, patent and copyright licenses or assignments, or options thereto, in any invention made or copyrighted work prepared in whole or in part by a laboratory employee under the agreement, retaining a nonexclusive, nontransferable, irrevocable, paid-up license to practice the invention and exercise all rights under the copyright or have the invention practiced and have all rights under the copyright exercised throughout the world by or on behalf of the Government and such other rights as the Federal laboratory deems appropriate;

(3) waive, subject to reservation by the Government of a nonexclusive, irrevocable, paid-up license to practice the invention and reproduce the copyrighted work or have the invention

practiced and the copyrighted work reproduced throughout the world by or on behalf of the Government, in advance, in whole or in part, any right of ownership which the Federal Government may have to any subject invention made or copyrighted work prepared under the agreement by a collaborating party or employee of a collaborating party;

(4) determine rights in other intellectual property developed under an agreement entered into under subsection (a)(1) of this section; and

(5) to the extent consistent with any applicable agency requirements and standards of conduct, permit employees or former employees of the laboratory to participate in efforts to commercialize inventions they made or copyrighted works they prepared while in the service of the United States, notwithstanding that such employees may have received royalties pursuant to 15 U.S.C. § 3710(c); provided, however, that such inventor or author did not participate in the selection of the collaborating party to the cooperative research and development agreement or in the negotiation of the licensing agreement. A Government-owned, contractor-operated laboratory that enters into a cooperative research and development agreement under subsection (a)(1) of this section may use or obligate royalties or other income accruing to such laboratory under such agreement with respect to any invention or copyrighted work only (i) for payments to inventors; (ii) for the purposes described in section 3710c(a)(1)(B)(i),(ii), and (iv) of this title; and (iii) for scientific research and development consistent with the research and development mission and objectives of the laboratory.

(d) Definition. As used in this section --

(1) the term "cooperative research and development agreement" means any agreement between one or more Federal laboratories and one or more non-Federal parties under which the Government, through its laboratories, provides personnel, services, facilities, equipment, or other resources with or without reimbursement (but not funds to non-Federal parties) and the non-Federal parties provide funds, personnel, services, facilities, equipment, or other resources toward the conduct of specified research or development efforts which are consistent with the missions of the laboratory; except that such term does not include a procurement contract or cooperative agreement as those terms are used in sections 6303, 6304, and 6305 of title 31, United States Code;

(2) the term "laboratory" means --

(A) a facility or group of facilities owned, leased, or otherwise used by a Federal agency, a substantial purpose of which is the performance of research, development, or engineering by employees of the Federal Government;

(B) a group of Government-owned, contractor-operated facilities under a common contract, when a substantial purpose of the contract is the performance of research and development for the Federal Government; and

(C) a Government-owned, contractor-operated facility that is not under a common contract described in subparagraph (B), and the primary purpose of which is the performance of research and development for the Federal Government, but such term does not include any facility covered by Executive Order No. 12344 [42 U.S.C. § 7158 note], dated February 1, 1982, pertaining to the naval nuclear propulsion program; and

(3) the term "joint work statement" means a proposal prepared for a Federal agency by the director of a Government-owned, contractor-operated laboratory describing the purpose and scope of a proposed cooperative research and development agreement, and assigning rights and responsibilities among the agency, the laboratory, and any other party or parties to the proposed agreement;

(4) the term "Computer Program" means a computer program as defined in section 101 of title 17, United States Code; and

(5) the term "Author" means a Federal officer or employee who has prepared a copyrighted work as part of that person's official duties.

(h) Copyright of Computer Programs - Each Federal agency may secure copyright on behalf of the United States as author or proprietor in any computer program prepared by employees of the United States Government in the course of work under, or related to, a cooperative research and development agreement entered into under the authority of subsection (a)(1) of this section, or under any other equivalent authority, notwithstanding the limitations contained in section 105 of title 17, United States Code; and may grant or agree to grant in advance to a collaborating party, licenses or assignments for such copyrights, or options thereto, retaining a nonexclusive, nontransferable, irrevocable, paid-up license to reproduce, adapt, translate, distribute, and publicly perform or display the computer program throughout the world by or on behalf of the Government and such other rights as the Federal agency deems appropriate.

15 U.S.C. § 3710c. Distribution of royalties received by Federal agencies

(a) In general

(1) except as provided in paragraphs (2) and (4), royalties or other income received by a Federal agency from the licensing or assignment of inventions or copyrightable works under agreements entered into by Government-operated Federal laboratories under section 3710a of this title, and inventions or copyrightable works of Government-operated Federal laboratories licensed under section 207 of Title 35, or under any other provision of law, shall be retained by the agency whose laboratory produced the invention or copyrighted work and shall be disposed of as follows:

(A)(i) The Head of the agency or his designee shall pay at least 15 percent of the royalties or other income the agency receives on account of any invention to the inventor or copyrighted work of an author (or co-inventors or co-authors) if the inventor or author (or each

such co-inventor or co-author) has assigned his or her rights in the invention or copyrighted work to the United States. ~~This clause shall take effect on October 20, 1986, unless the agency publishes a notice in the Federal Register within 90 days of such date indicating its election to file a Notice of Proposed Rulemaking pursuant to clause (ii).~~

(ii) An agency may promulgate, in accordance with section 553 of Title 5, regulations providing for an alternative program for sharing royalties with inventors or authors under clause (i). Such regulations must --

(I) guarantee a fixed minimum payment to each such inventor or author, each year that the agency receives royalties from that inventor's invention or author's copyrighted work;

(II) provide a percentage royalty share to each such inventor or author, each year that the agency receives royalties from that inventor's invention or author's copyrighted work in excess of a threshold amount;

(III) provide appropriate incentives from royalties for those laboratory employees who contribute substantially to the technical development of a licensed invention or copyrighted work between the time of the filing of the patent application and the licensing of the invention or copyrighted work;

(IV) provide appropriate incentives from royalties for those laboratory employees who contribute substantially to the technical development of a licensed invention or copyrighted work between the time of the filing of the patent application and the licensing of the invention or copyrighted work.

(iii) An agency that has published its intention to promulgate regulations under clause (ii) may elect not to pay inventors or authors under clause (i) until the expiration of two years after October 20, 1986, or until the date of the promulgation of such regulations, whichever is earlier. If an agency makes such an election and after two years the regulations have not been promulgated, the agency shall make payments (in accordance with clause (i)) of at least 15 percent of the royalties involved, retroactive to October 20, 1986. If promulgation of the regulations occurs within two years after October 20, 1986, payments shall be made in accordance with such regulations, retroactive to October 20, 1986. The agency shall retain its royalties until the inventor's or author's portion is paid under either clause (i) or (ii). Such royalties shall not be transferred to the agency's Government-operated laboratories under subparagraph (B) and shall not revert to the Treasury pursuant to paragraph (2) as a result of any delay caused by rule making under this subparagraph.

(B) The balance of the royalties or other income shall be transferred by the agency to its Government-operated laboratories, with the majority share of the royalties or other income from any invention or copyrighted work going to the laboratory where the invention occurred or copyrighted work was prepared, and the funds so transferred to any such laboratory may be used

or obligated by that laboratory during the fiscal year in which they are received or during the succeeding fiscal year --

(i) for payment of expenses incidental to the administration and licensing of inventions or copyrighted work by that laboratory or by the agency with respect to inventions which occurred or copyrighted work prepared at that laboratory, including the fees or other costs for the services of other agencies, persons, or organizations for inventions or copyrighted work management and licensing services;

(ii) to reward scientific, engineering, and technical employees of that laboratory, including payments to inventors and developers of sensitive or classified technology, regardless of whether the technology has commercial applications;

(iii) to further scientific exchange among the Government-operated laboratories of the agency; or

(iv) for education and training of employees consistent with the research and development mission and objectives of the agency, and for other activities that increase the licensing potential for transfer of the technology of the laboratories of the agency.

Any of such funds not so used or obligated by the end of the fiscal year succeeding the fiscal year in which they are received shall be paid into the Treasury of the United States.

(2) If, after payments to inventors or authors under paragraph (1), the royalties received by an agency in any fiscal year exceed 5 percent of the budget of the Government-operated laboratories of the agency for that year, 75 percent of such excess shall be paid to the Treasury of the United States and the remaining 25 percent may be used or obligated for the purposes described in clauses (i) through (iv) of paragraph (1)(B) during that fiscal year or the succeeding fiscal year. Any funds not so obligated shall be paid into the Treasury of the United States.

(3) Any payment made to an employee under this section shall be in addition to the regular pay of the employee and to any other awards made to the employee, and shall not affect the entitlement of the employee to any regular pay, annuity, or award to which he is otherwise entitled or for which he is otherwise eligible or limit the amount thereof. Any payment made to an inventor or author as such shall continue after the inventor or author leaves the laboratory or agency. Payments made under this section shall not exceed \$100,000 per year to any one person, unless the President approves a larger award (with the excess over \$100,000 being treated as a Presidential award under section 4504 of Title 5).

(4) A Federal agency receiving royalties or other income as a result of invention, or copyrighted work, management services performed for another Federal agency, or laboratory under section 207 of Title 35 may retain such royalties or income to the extent required to offset the payment of royalties to inventors or authors under clause (i) of paragraph (1)(A), costs and expenses incurred under clause (i) of paragraph (1)(B), and the cost of foreign patenting or copyrighting and maintenance for any invention or copyright of the other agency. All royalties

and other income remaining after payment of the royalties, costs, and expenses described in the preceding sentence shall be transferred to the agency for which the services were performed, for distribution in accordance with clauses (i) through (iv) of paragraph (1)(B).

(b) Certain assignments. If the invention or copyrightable work involved was one assigned to the Federal agency --

(1) by a contractor, grantee, or participant in a cooperative agreement with the agency,
or

(2) by an employee of the agency who was not working in the laboratory at the time the invention was made or copyrightable work prepared, the agency unit that was involved in such assignment shall be considered to be a laboratory for purposes of this section.

(c) Reports.

(1) In making their annual budget submissions Federal agencies shall submit, to the appropriate authorization and appropriation committees of both Houses of Congress, summaries of the amount of royalties or other income received and expenditures made (including inventor or author) under this section.

~~(2) The Comptroller General, five years after October 20, 1986, shall review the effectiveness of the various royalty-sharing programs established under this section and report to the appropriate committees of the House of Representatives and the Senate, in a timely manner, his findings, conclusions, and recommendations for improvements in such programs.~~

15 U.S.C. § 3710d. Employee Activities

(a) Rights to inventions prepared by Government employees [In general]

If a Federal agency which has the right of ownership to an invention under this chapter does not intend to file for a patent application or otherwise to promote commercialization of such invention, the agency shall allow the inventor, if the inventor is a Government employee or former employee who made the invention during the course of employment with the Government, to retain title to the invention (subject to reservation by the Government of a nonexclusive, nontransferable, irrevocable, paid-up license to practice the invention or have the invention practiced throughout the world by or on behalf of the Government). In addition, the agency may condition the inventor's right to title on the timely filing of a patent application in cases when the Government determines that it has or may have a need to practice the invention.

(b) Rights to computer programs prepared by Government employees

(1) A computer program prepared by an officer or employee of the United States Government as part of that person's official duties shall be a "work made for hire" as defined in subparagraph (1) of section 101 of title 17, United States Code, and the United States

Government shall obtain all rights, title, and interest therein as "author" in accordance with section 201(b) of title 17, United States Code unless otherwise provided in (b)(2).

(2) If a Federal agency has the right of ownership to a computer program for which the agency does not intend to copyright or otherwise promote the commercialization of such computer program, the agency may agree to allow the author to acquire title to copyright, subject to the reservation of a nonexclusive, nontransferable, irrevocable, paid-up license to exercise all rights under the copyright by or on behalf of the Government throughout the world, and such other reservations deemed necessary to assure distribution and utilization of the computer program.

17 U.S.C. § 105. Subject matter of copyright: United States Government

Copyright protection under this title is not available for any work of the United States Government, except as provided in section 3710a of Title 15, United States Code, but the United States is not precluded from receiving and holding copyrights transferred to it by assignment, bequest, or otherwise.

5.2.2. 10 U.S.C. § 2363

Encouragement of technology transfer

5.2.2.1. Summary of the Law

This section encourages the transfer of technology between laboratories and research centers of DOD and other Federal agencies, state and local governments, colleges and universities, and private persons in cases that are likely to result in the maximum domestic use of such technology.¹

5.2.2.2. Background of the Law

This section was enacted by the Department of Defense Authorization Act of 1986, Pub. L. No. 99-145, § 1457 of Title XIV.² There is no comment on this section in the legislative history of Pub. L. No. 99-145. There was, however, extensive activity on Capitol Hill in 1985 dealing with Federal technology transfer as a way to improve the competitiveness of the American economy.

5.2.2.3. Law in Practice

The managers of the technology transfer programs in each of the uniform services were not familiar with section 2363. After review of the statute, the Air Force and Navy concluded that it did not provide them with either authority or support in the execution of their programs.

The Army Domestic Technology Transfer Program Manager, however, stated that section 2363 requires the Secretary of Defense to take positive action to encourage technology transfer from the defense laboratories. He stated that, although the amended Stevenson-Wydler provides for flexibility in implementation, it does not focus responsibility on the top management of the cabinet department as does section 2363. Moreover, he asserted that section 2363 was the only statutory expression of congressional intent to place responsibility upon top cabinet members for technology transfer. Based on this reason, the Army technology manager recommended retention of section 2363.

5.2.2.4. Recommendation and Justification

Repeal

Section 2363 only encourages the transfer of technology and does not explicitly place responsibility on top cabinet members for technology transfer. 15 U.S.C. § 3710 of the Stevenson-Wydler Act provides authority and permits specific technology transfer activities for all

¹10 U.S.C. § 2363.

²Department of Defense Authorization Act of 1986, Pub. L. No. 99-145, § 1457, 99 Stat. 762 (1985).

Federal laboratories, including those in DOD. The Stevenson-Wydler Act encompasses the provisions of section 2363, and provides managers of the technology program with the authority and support to execute their programs.

5.2.2.5. Relationship to Objectives

This recommendation enhances the goal of streamlining the acquisition process by eliminating a redundant law.

5.2.2.6. Proposed Statute

10 U.S.C. § 2363. Encouragement of technology transfer

~~(a) The Secretary of Defense shall encourage, to the extent consistent with national security objectives, the transfer of technology between laboratories and research centers of the Department of Defense and other Federal agencies, State and local governments and universities, and private persons in cases that are likely to result in the maximum domestic use of such technology.~~

~~(b) The Secretary shall examine and implement methods, in addition to the encouragement referred to in subsection (a), that are consistent with national security objectives and will enable Department of Defense personnel to promote technology transfer in cases referred to in subsection (a).~~

5.2.3. 35 U.S.C. §§ 200 - 212¹

Patent Rights In Inventions Made With Federal Assistance

5.2.3.1. Summary of the Law

This statute uses the patent system to promote the utilization of inventions arising from federally supported research and development.² The objective of the statute is to encourage maximum participation of small business firms and nonprofit organizations in federally supported research and development efforts, promote collaboration between commercial concerns and nonprofit organizations, ensure that the Government obtains sufficient rights in federally supported inventions to meet its needs, and protect the public against nonuse or unreasonable use of inventions.³

Section 202 sets forth the disposition of rights between the nonprofit organization or small business and the Government.⁴ Specifically, this section provides that each nonprofit organization or small business may elect to retain title to any subject invention within a reasonable time after disclosure to the Government.⁵ The Government may receive title to any subject invention if not disclosed within a reasonable time.⁶ The contractor must make a written election within two years after disclosure to the Federal agency whether to retain title to a subject invention.⁷ However, where publication, sale, or public use has initiated the one year statutory period in which valid protection can still be retained in the United States,⁸ the election may be shortened to a date that is not more than 60 days prior to the end of the statutory period.⁹ The one year statutory period is set forth in 35 U.S.C. § 102(b). This statute provides that a person shall be entitled to a patent unless "the invention was patented or described in a printed publication in this

¹ Section 200. Policy and objective.

Section 201. Definitions.

Section 202. Disposition of rights.

Section 203. March-in-rights.

Section 204. Preference for United States industry.

Section 205. Confidentiality.

Section 206. Uniform clauses and regulations.

Section 207. Domestic and foreign protection of federally owned inventions.

Section 208. Regulations governing Federal licensing.

Section 209. Restrictions on licensing of federally owned inventions.

Section 210. Precedence of chapter.

Section 211. Relationship to antitrust laws.

Section 212. Disposition of rights in educational awards.

² 35 U.S.C. § 200.

³ *Id.*

⁴ *Id.*

⁵ 35 U.S.C. § 202(c)(1).

⁶ *Id.*

⁷ 35 U.S.C. § 202(c)(2).

⁸ 35 U.S.C. § 102(b).

⁹ 35 U.S.C. § 202(c)(2).

or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States."¹⁰

5.2.3.2. Background of the Law

In 1980, Congress enacted the first uniform patent policy statute applicable to all Federal agencies. This statute (Pub. L. No. 96-517) added 35 U.S.C. §§ 200-211 to the body of patent law.¹¹ The statute also repealed all other laws concerning Government patent policy that related to small business firms and nonprofit organizations. Thus, by enacting this statute, Congress established a distinct patent policy for small business firms and nonprofit organizations.

Pub. L. No. 96-517 permits small businesses and nonprofit organizations to retain title to inventions, called "subject inventions," made in the performance of funding agreements with Federal agencies. The House Report to Pub. L. No. 96-517 stated that nonprofit institutions and small businesses were to be given preferential treatment for obtaining patent rights in inventions. The report further stated a presumption that ownership of all patent rights in Government funded research would vest in any contractor that is a nonprofit institution or small business.¹² This policy substantially incorporated legislation separately introduced by the University, Small Business Patent Policy Act.¹³ The purpose of the Act was to foster cooperative research arrangements among the Government, universities, and industry in order to "more effectively utilize the productive resources of the nation in the creation and commercialization of new technologies."¹⁴

5.2.3.3. Law in Practice

This statute encourages commercialization of subject inventions by giving the contractor the first opportunity to file for a patent. It has served its purpose well in the fact that a number of universities and small businesses have undertaken significant efforts to commercialize inventions made in Government contracts. However, the Panel found that provisions of the statute governing the time for reporting inventions as well as the period for electing to file are lax -- with the result that too little time is given to DOD agencies to file for patent protection in cases where the small business or nonprofit organization elected not to file.¹⁵

¹⁰35 U.S.C § 102(b).

¹¹Pub. L. No. 96-517 was first implemented by the Office of Federal Procurement Policy (OFPP) in OMB Bulletin 81-22, 46 *Fed. Reg.* 34775 (1981). Unlike the usual guidance provided by OMB or OFPP, the Bulletin was a detailed regulation. Subsequently, DOD issued Defense Acquisition Circular 76-29 (Aug. 31, 1981) to implement Pub. L. No. 96-517 and the OMB Bulletin. NASA also implemented the policy by modifying its Patent Waiver Regulations, 46 *Fed. Reg.* 37023 (1981) and its procurement regulations, NASA PRD 81-5 (July 1, 1981). 35 U.S.C. § 212 was added Nov. 8, 1984 by Pub. L. No. 98-620.

¹²See H.R. Rep. No. 1307, 96th Cong., 2d Sess., pt. 1, at 5 (1980), *reprinted in* 1980 U.S.C.C.A.N. 6464.

¹³H.R. 2414 (S.414). S.414 was introduced by Senators Birch Bayh (D.-Ind.) and Robert Dole (R.-Kan.). The Senate passed S.414 by an overwhelming vote of 91-4.

¹⁴Ralph C. Nash, Jr. & Leonard Rawicz, *Patents and Technical Data* at 156 (1983).

¹⁵The Intellectual Property Counsel at Massachusetts Institute of Technology was neutral in its position on this proposal.

5.2.3.4. Recommendations and Justification

I

Amend 35 U.S.C. § 202(c)(1) to require contractors to disclose each subject invention within a reasonable time, but in any event prior to publication.

Under the current law, a contractor is required to disclose each subject invention to the Federal agency within a reasonable time after it becomes known to contractor personnel responsible for the administration of patent matters. Inventors may, however, publish their inventions and not bring them to the attention of contractor personnel responsible for patent matters. Once an invention is published, a one year time limit for filing for a patent begins to run. Requiring that each subject invention be reported "prior to publication" would enhance the ability of the contractor and the Federal agency, if the contractor elects not to retain title, to file for a patent before the time limit for filing expires.

II

Amend 35 U.S.C. § 202(c)(2) to provide that contractors specifically state their election to retain title to a subject invention in the U.S. and in any foreign country.

Amend 35 U.S.C. § 202(c)(2) to provide that where publication, or sale, or public use, has initiated the one year statutory period in which valid patent protection can still be obtained in the U.S., the period for election may be shortened by the Federal agency to a date that is not more than four months prior to the end of the statutory period.

The intent of the first recommendation is to require that contractors disclose their intentions on filing abroad. The current language only requires that contractors make a written election within two years, but is silent on the place of filing. Thus, contractors can satisfy the statute merely by telling the federal agency that they elect to retain title, while not disclosing their intentions on filing abroad. Often, contractors do not wish to file abroad. This leaves many domestic technologies without international protection. If a contractor planned to file only in the United States, then a Federal agency, having been made aware of this fact, could file the patent abroad.

The second recommendation would allow the Federal agency four months in which to evaluate an invention and file for a patent when the contractor elects not to retain title and the one year statutory bar had been initiated. Presently, the statute provides that the period of election may be shortened by the Federal agency to a date that is not more than 60 days prior to the end of the statutory period. The 60 day period is insufficient time for the invention evaluation board of the Federal agency to review the invention and have a patent application prepared and filed.

III

Amend 35 U.S.C. § 202(c)(3) to provide that whenever contractors elect to retain title, they will file a patent application within one year of election (or additional time as approved by the Federal agency).

The intent of this recommendation is to encourage contractors to file in a timely manner after they elect to retain title. Sometimes, contractors elect to retain title but either delay filing or do not file for a patent. This proposal encourages contractors to file within one year of the election to retain title. The contractor may have additional time to file upon approval of the Federal agency. Timely filing will hasten the entry of new technologies into the market.

5.2.3.5. Relationship to Objectives

By encouraging the filing of patents by universities, industry, and the Government, the proposed recommendations will facilitate commercial market access to Government developed technologies.

5.2.3.6. Proposed Statute

35 U.S.C. § 202. Disposition of rights

(c) Each funding agreement with a small business firm or nonprofit organization shall contain appropriate provisions to effectuate the following:

(1) That the contractor disclose each subject invention to the Federal agency prior to publication of the invention and within a reasonable time after it becomes known to contractor personnel responsible for the administration of patent matters, and that the Federal Government may receive title to any subject invention not disclosed to it within such reasonable time.

(2) That the contractor make a written election within two years after disclosure to the Federal agency (or such additional time as may be approved by the Federal agency) whether to the contractor will retain title to a subject invention in the United States and in any foreign countries: Provided, That if a Contractor elects to retain title in the United States the election to retain title in any foreign country may be delayed until six months after filing the United States patent application: And provided further, That in any case where publication, or sale, or public use, has initiated the one year statutory period within in which a valid patent application must protection can still be filed obtained in the United States, the period for election may be shortened by the Federal agency to a date that is not more than four months sixty days prior to the end of the statutory period: And provided further, that the Federal Government may, after notice to the contractor, receive title to any subject invention in which the contractor does not elect to retain title rights or fails to elect rights within such time.

(3) That a contractor ~~electing rights in a subject invention~~ agrees to file a patent application on a subject invention in each elected country within one year of the written election to retain title (or such additional time as may be approved by the Federal agency) and, in any event, prior to any statutory bar date that may occur under this title due to publication, or sale, or public use, and shall thereafter file corresponding patent applications in other countries in which it wishes to retain within reasonable times, and that the Federal Government, may after notice to the contractor, receive title to any subject inventions in the United States or other countries in which the contractor has not filed patent applications on the subject invention within one year of election such times.

5.3. Competitiveness of United States Companies

5.3.0. Introduction

The Panel reviewed three statutes that affect the competitiveness of U.S. companies in competition for worldwide business: the Invention Secrecy Act; the Export Control Act; and the Freedom of Information Act. The Panel recognizes that U.S. companies are no longer dominant in their technological advantage over foreign companies and that Federal policy must, therefore, be carefully scrutinized to ensure that it does not inadvertently deprive U.S. companies of access to worldwide markets. The Panel has identified a few instances where these statutes have that effect and recommends changes to reduce it to a minimum.

The Invention Secrecy Act, 35 U.S.C. §§ 181-188, creates a process where the Patent Office may impose a secrecy order on a patent application when publication would be detrimental to the national defense. The Panel found that the process being used at the present time places many patents under secrecy order, thereby impeding the owner of the invention from using it in worldwide commerce. The Panel concluded that the number of secrecy orders was excessive because the process relies on decisions of lower level technical personnel in DOD who have been given little or no guidance on the current standards (generally export control criteria) for the imposition of these orders. The fact that export control criteria have been very dynamic in recent years exacerbates this problem. The Panel has concluded that the process will function much more effectively if the decision is made by a high level committee chaired by DOD and composed of personnel from the Export Control Administration, the Patent Office, and the Department of State. The Panel has also made some recommendations for technical amendments to this statute.

The Arms Export Control Act, 22 U.S.C. § 2751 et seq. is, in general, not sufficiently related to Government procurement to fall within the parameters of this study. However, one section of this statute, 22 U.S.C. § 2261(e), does impact worldwide competitiveness of defense contractors in that it requires recoupment of nonrecurring costs in foreign military sales. The Panel noted that the question of recoupment was thoroughly studied by the Administration in 1992 and the conclusion was reached that it impeded the ability of U.S. companies to compete in the foreign marketplace. It was, therefore, rescinded as a policy of the executive branch but remains statutory policy in this one section. The Panel agrees with the conclusion that recoupment impedes the ability of U.S. companies to compete in worldwide markets and recommends that this section of the Arms Export Control Act be repealed.

The Freedom of Information Act, 5 U.S.C. § 552, establishes the general principle that information possessed by the Government should be freely available to members of the public. While proprietary information received from contractors is generally exempt from this requirement, the statute releases large amounts of Government information to the public (including foreign companies and governments) and some of this information is inevitably technical information of value to contractors. The statute is also very costly for DOD to administer. However, the Panel recommends that no changes be made to this statute because of the validity of its overall purpose that Government should be conducted in the open.

In the course of reviewing the Freedom of Information Act, the Panel also reviewed two peripheral statutes, 10 U.S.C. § 130 and 10 U.S.C. § 2328, and recommends that both be retained. The first of these statutes provides that technical data subject to the export control laws may be withheld from release under the Freedom of Information Act. This statute serves the purpose of protecting U.S. companies in worldwide competition as well as the purpose of protecting information whose release would adversely impact on the national security. The second of these statutes provides that the Department may charge reasonable fees for searching and preparing information for release under the Freedom of Information Act -- fees in excess of those called for by that Act. The statute also permits waiver of this larger fee if the request is made by a U.S. company. This statute thus carries out the policy of ensuring that U.S. companies are not placed at a disadvantage in competing with foreign companies.

5.3.1. 35 U.S.C. §§ 181 - 188

Secrecy of Certain Inventions and Filing Applications in Foreign Countries¹

5.3.1.1. Summary of the Law

This statute authorizes the U.S. Patent and Trademark Office (PTO) to impose secrecy orders on patent applications when disclosure of an invention by publication of a patent would be detrimental to the national security.² A secrecy order withholds the grant of a patent, thereby restricting the dissemination of technical data contained in the application. Secrecy orders are imposed by the PTO upon specific recommendation by defense agencies, including the Army, Navy, Air Force, National Security Agency, Department of Energy, and National Aeronautics and Space Administration.³

Specifically, the law requires: (1) the Commissioner of Patents to impose a secrecy order on an application in which the Government has a property interest if, in the opinion of the interested Government agency, the grant of a patent would be detrimental to the national security; and (2) where there is no Government property interest, an application is made available by the PTO to defense agencies who have expressed an interest in the referenced technology. If, upon inspection, a defense agency determines that disclosure would be detrimental to the national security, it may recommend that the Commissioner of Patents place a secrecy order on the application. Upon receipt of such recommendation, the Commissioner must issue a secrecy order.⁴

Three specialized secrecy orders have been established to handle the different sensitivity levels of technical information contained in patent applications as well as other variables, such as the degree of Government ownership of the invention and the known ability of the owner to protect sensitive/classified information. These secrecy orders are intended to permit the broadest disclosure of the subject matter in a patent application that is consistent with existing statutory and regulatory controls.

¹Section 181. Secrecy of certain inventions and withholding of patent.

Section 182. Abandonment of invention for unauthorized disclosure.

Section 183. Right to compensation.

Section 184. Filing of application in foreign country.

Section 185. Patent barred for filing without license.

Section 186. Penalty.

Section 187. Nonapplicability to certain persons.

Section 188. Rules and regulations, delegation of power.

This paper also includes discussion of 35 U.S.C. § 155 as it relates to recommendation II.

²35 U.S.C. § 181.

³*Id.*

⁴*Id.*

These orders are commonly identified as type 1, 2, and 3 secrecy orders, each having a different purpose and effect. A type 1 secrecy order is used for applications containing technical data that may be export controlled. Types 2 and 3 secrecy orders are used for those patent applications containing technical data that is classified or "classifiable" under an existing security guideline. Type 2 orders are generally used when the owner has a current industrial security agreement with DOD. A type 3 secrecy order is used in all instances where a type 1 or 2 order is not appropriate, *e.g.*, for applications containing classifiable subject matter of extreme sensitivity, where the owner has an industrial security agreement that is deemed insufficient to meet security requirements, or where the owner does not have an industrial security agreement in place.

Secrecy orders remain in effect until withdrawn by the PTO upon request by the sponsoring agency.⁵ An applicant may, however, file a petition to the PTO requesting rescission of the secrecy order. The petition takes the form of a request for reconsideration of the sponsoring agency's recommendation to impose a secrecy order. When the PTO receives a petition for rescission, it forwards the petition to the sponsoring agency for recommendation. Experience has shown that to be successful, an applicant often has to have direct contact with the sponsoring agency or have the applicant's Congressman intercede.

5.3.1.2. Background of the Law

The authority of the Commissioner of Patents to withhold a patent when in the interest of national security may be traced back to World War I. The Act of October 6, 1917,⁶ authorized the Commissioner of Patents to withhold, during time of war, the issuance of patents or inventions important to the national defense. It also provided such applicants the right to sue in the Court of Claims for damages resulting from the loss of use. On July 1, 1940, Pub. L. No. 76-700 was enacted to make the law applicable at any time by removing the wartime restriction. The House Report to that law stated that "[i]nventions useful in war are made and developed during times of peace and it is equally if not more important that this country be in a position to prevent knowledge of war inventions from being published and disclosed during times of peace as well as times of war."⁷ In 1951, in light of the impending peace treaties with Germany and Japan, Congress began consideration of several bills designed to make these various laws permanent. As ultimately approved on February 1, 1952, the Invention Secrecy Act of 1951 made secrecy orders a permanent part of the patent system.⁸

5.3.1.3. Law in Practice

There is a lack of clear and consistent policy governing the imposition of secrecy orders. For instance, neither the PTO nor individual service branches and intelligence services have issued consistent guidance concerning procedures for determining which technologies deserve scrutiny.

⁵*Id.*

⁶Act of Oct. 6, 1917, Pub. L. No. 65-80, 40 Stat. 394.

⁷See H.R. Rep. No. 2515, 76th Cong.

⁸Invention Secrecy Act of 1951, Pub. L. No. 82-256, 66 Stat. 3 (codified by Pub. L. No. 82-593 at sections 181-188 of title 35, U.S. Code). See S. Rep. No. 1001, 82d Cong., 1st Sess. (1951), reprinted in 1952 U.S.C.C.A.N. 1321.

Agencies often rely on the Military Critical Technologies List (MCTL) to determine whether to recommend the imposition of a secrecy order to the PTO. According to the Institute for Defense Analysis, which administers the MCTL, the list was never intended for such use. The list contains references to freely traded and patented inventions. Using the list as a justification for the imposition of a secrecy order could cause severe constraints on the availability of critical technologies to U.S. defense industries by denying patent protection to U.S. technology innovators. Moreover, agencies often do not apply the other criteria used by the State and Commerce Departments when making export control determinations, specifically foreign availability and the extent of prior publication. Thus, section 181 has become a tool to implement unilateral export controls but in a manner inconsistent with contemporary policies and procedures of other agencies, specifically the State and Commerce Departments.

5.3.1.4. Recommendations and Justification

I

Amend 35 U.S.C. § 181 to establish a Patent and Trademark Technical Advisory Committee within DOD to review and administer the imposition of secrecy orders.

Congress was primarily concerned with national security when enacting the Invention Secrecy Act of 1951. While national security should remain the primary focus, economic vitality and technological advancement should also be carefully considered when recommending the imposition of secrecy orders because these factors also promote the goal of maintaining U.S. national security. At the same time it is paramount that critical technologies not fall into the wrong hands. Thus, the statute should operate in a manner that will promote the U.S. technological base while at the same time impede the flow of technologies to potential adversaries.

This recommendation proposes the establishment of a Patent and Trademark Technical Advisory Committee within DOD to review and administer the imposition of secrecy orders. Presently, the defense agencies have the responsibility of recommending the imposition of secrecy orders to the PTO. This proposal would shift responsibility from agencies whose principal and often only concern is technology control to a body with expertise in both the control of technology and its development.

The problem with the current structure is that a considerable number of patent applications are being subjected to secrecy orders. This is largely due to the rampant use of the MCTL as well as the lack of clear guidance at the agency level as to what is "detrimental to the national security" as set forth in section 181. The Panel on the Impact of National Security Controls on International Technology Transfer foresaw this occurrence back in 1984.⁹ The Panel stated that use of the MCTL or other broad criteria as guidance could result in a number of

⁹This Panel was organized by the National Academy complex in 1984. The purpose of the Panel was to examine the effect of export controls on commercial trade in high-technology goods.

applications being subjected to secrecy orders.¹⁰ Moreover, the Panel stated that extensive use of secrecy orders would "undermine the benefits of the patent system, increase the duplication of R&D activities, and result in important innovations being withheld from commercial markets."¹¹ The extensive use of secrecy orders has, in fact, undermined the benefits of the patent system by stifling the development and transfer of technologies into the community.

Agencies often use the MCTL as a guide for determining whether to recommend the imposition of a secrecy order to the PTO.¹² The agencies generally do not, however, apply the other criteria used by the Departments of Commerce and State when making export control determinations, specifically foreign availability and the extent of prior publication. Thus, in practice, section 181 has become a tool to implement the unilateral export controls. Extending controls to unclassified technical data that relate to the wide range of technologies on the MCTL impedes the exchange of information in the technical community without necessarily enhancing national security.

Moreover, broad imposition of secrecy orders will result in reduced revenues from lost sales and market shares. This will lead to less investment, a lower growth rate, and reduced innovation, with resulting adverse effects on both the commercial and military sectors.

The time is ripe to shift from a purely DOD standard of national security to a standard as defined by both military and economic parameters. Only by this shift can the United States maintain national security, revitalize the economy, and continue to be the leader in technological advancement.

II

Amend 35 U.S.C § 155 to extend the term of any patent, which has been delayed from a grant by a secrecy order, for a period equal to the period of the delay, but not to exceed five years.

III

Amend 35 U.S.C. § 183 to provide compensation only for periods of delay exceeding five years.

These recommendations are interrelated and will be discussed together. The present statutory scheme, set forth in section 183, provides a right to just compensation for damages caused by a secrecy order. A claimant may apply to the head of any department or agency that

¹⁰*Balancing the National Interest* at 127 (National Academy Press, Washington, D.C. 1987).

¹¹*Id.* at 128.

¹²Both the Contract Law Division and the Intellectual Property Counsel of the Army disagreed with the proposal stating that there is a proposed administrative recommendation within the Army and Navy not to apply the MCTL guidelines to secrecy applications and, therefore, the recommendation is not necessary. (memorandums from the Army Contract Law Division, Aug. 11, 1992 and the Intellectual Property Counsel of the Army, Aug. 10, 1992) Although this is a step in the right direction, the Army failed to state what guidance would be issued in its place.

caused the order to be issued for compensation for the damage caused by the order of secrecy and/or for the use of the invention by the Government, resulting from its disclosure.¹³ A claimant may bring suit against the U.S. in the U.S. Claims Court or in the District Court of the U.S. for the district in which such claimant is a resident.¹⁴

While the primary value of a patent grant is the right to exclude others, just compensation for this loss is difficult to obtain. The administrative costs of complying with a secrecy order often are not recovered. For example, it may be necessary to notify people to whom the invention has already been disclosed. Additionally, there may be restrictions on seeking advice from others both as to prosecuting the application as well as to investigating marketing opportunities. It is also administratively burdensome to go through the court process of compensating a claimant for damages under section 183.

A scheme that would provide compensation "in-kind" would be more equitable than the current scheme, which puts the patent owner to the task of proving damages. Thus, section 155 should be amended to extend the term of any patent which has been delayed from a grant by a secrecy order for a period equal to the period of delay, up to five years.

Additionally, term extension would be much simpler to administer. The term can simply be extended for a period equal to that of the delay occasioned by the secrecy order. The extension would be capped at five years, while, simultaneously, compensation would be eliminated for damages caused by secrecy orders up to five years under section 183.

5.3.1.5. Relationship to Objectives

This proposal will further the development and preservation of the U.S. industrial base. Moreover, the proposal will ensure the implementation of a consistent policy governing the imposition of secrecy orders. This will facilitate both Government access to commercial technologies as well as commercial market access to Government technologies.

5.3.1.6. Proposed Statute

35 U.S.C. § 181. Secrecy of certain inventions and withholding of patent

(a) Whenever publication or disclosure by the grant of a patent on an invention in which, in the opinion of the Patent and Trademark Technical Advisory Committee or the Department of Energy, the Government has a property interest might, in the opinion of the head of the interested Government agency, be detrimental to the national security, the Commissioner upon being so notified shall order that the invention be kept secret and shall withhold the grant of a patent therefor under the conditions set forth hereinafter.

(b) The Patent and Trademark Technical Advisory Committee shall be chaired by the chairman of the Armed Services Patent Advisory Board or his/her designee within the Department of Defense.

¹³35 U.S.C. § 183.

¹⁴*Id.*

and shall consist of at least the Commissioner of the Patent and Trademark Office or his/her designee, the Deputy Assistant Secretary for Export Administration or his/her designee within the Department of Commerce, and the Director of the Bureau of Economic and Business Affairs or his/her designee within the Department of State. ~~Whenever the publication or disclosure of an invention by the granting of a patent, in which the Government does not have a property interest, might, in the opinion of the Commissioner, be detrimental to the national security, he shall make the application for patent in which such invention is disclosed available for inspection to the Atomic Energy Commission, the Secretary of Defense, and the chief officer of any other department or agency of the Government designated by the President as a defense agency of the United States.~~

(c) Each individual to whom the application is disclosed shall sign a dated acknowledgment thereof, which acknowledgment shall be entered in the file of the application. If, in the opinion of the Patent and Trademark Technical Advisory Committee or the Department of Energy Atomic Energy Commission, the Secretary of a Defense Department, or the chief officer of another department or agency so designated, the publication or disclosure of the invention by the granting of the patent therefor would be detrimental to the national security, ~~the Patent and Trademark Technical Advisory Committee and the Department of Energy Atomic Energy Commission, the Secretary of a Defense Department, or such other chief officer~~ shall notify the Commissioner and the Commissioner shall order that the invention be kept secret and shall withhold the grant of a patent for such period as the national interest requires, and notify the applicant thereof. Upon proper showing by the chairman of the Patent and Trademark Technical Advisory Committee or the Department of Energy, head of the department or agency who caused the secrecy order to be issued that the examination of the application might jeopardize the national interest, the Commissioner shall thereupon maintain the application in a sealed condition and notify the applicant thereof. The owner of an application which has been placed under a secrecy order shall have a right to appeal from the order to the Secretary of Commerce under rules prescribed by him.

(d) An invention shall not be ordered kept secret and the grant of a patent withheld for a period of more than one year. The Commissioner shall renew the order at the end thereof, or at the end of any renewal period, for additional periods of one year upon notification by the Patent and Trademark Technical Advisory Committee or the Department of Energy head of the department or the chief officer of the agency who caused the order to be issued that an affirmative determination has been made that the national interest continues to so require. An order in effect, or issued, during a time when the United States is at war, shall remain in effect for the duration of hostilities and one year following cessation of hostilities. An order in effect, or issued, during a national emergency declared by the President shall remain in effect for the duration of the national emergency and six months thereafter. The Commissioner may rescind any order upon notification by the Patent and Trademark Technical Advisory Committee or the Department of Energy heads of the departments and the chief officers of the agencies who caused the order to be issued that the publication or disclosure of the invention is no longer deemed detrimental to the national security.

35 U.S.C. § 182. Abandonment of invention for unauthorized disclosure

The invention disclosed in an application for patent subject to an order made pursuant to section 181 of this title may be held abandoned upon its being established by the Commissioner that in violation of said order the invention has been published or disclosed or that an application for a patent therefor has been filed in a foreign country by the inventor, his successors, assigns, or legal representatives, or anyone in privity with him or them, without the consent of the Commissioner. The abandonment shall be held to have occurred as of the time of violation. The consent of the Commissioner shall not be given without the concurrence of the Patent and Trademark Technical Advisory Committee and the Department of Energy ~~heads of the departments and the chief officers of the agencies~~ who caused the order to be issued. A holding of abandonment shall constitute forfeiture by the applicant, his successors, assigns, or legal representatives, or anyone in privity with him or them, of all claims against the United States based upon such invention.

35 U.S.C. § 183. Right to compensation

An applicant, his successors, assigns, or legal representatives, whose patent is withheld as herein provided, shall have the right, beginning at the date the applicant is notified that, except for such order, his application is otherwise in condition for allowance, or February 1, 1952, whichever is later, and ending six years after a patent is issued thereon, to apply to the Secretary of Defense or the Department of Energy ~~head of any department or agency~~ who caused the order to be issued for compensation for the damage caused by the order of secrecy and/or for the use of the invention by the Government, resulting from his disclosure. The right to compensation for use shall begin five years from ~~on the date of~~ the first use of the invention by the Government. The head of the department or agency is authorized, upon the presentation of a claim, to enter into an agreement with the applicant, his successors, assigns, or legal representatives, in full settlement for the damage and/or use. This settlement agreement shall be conclusive for all purposes notwithstanding any other provision of law to the contrary. If full settlement of the claim cannot be effected, the Secretary of Defense or Department of Energy ~~head of the department or agency~~ may award and pay to such applicant, his successors, assigns, or legal representatives, a sum not exceeding 75 per centum of the sum which the Secretary of Defense or the Department of Energy ~~head of the department or agency~~ considers just compensation for the damage and/or use. A claimant may bring suit against the United States in the United States Claims Court or in the District Court of the United States for the district in which such claimant is a resident for an amount which when added to the award shall constitute just compensation for the damage and/or use of the invention by the Government. The owner of any patent issued upon an application that was subject to a secrecy order issued pursuant to section 181 of this title, who did not apply for compensation as above provided, shall have the right, after the date of issuance of such patent, to bring suit in the United States Claims Court for just compensation for the damage caused by reason of the order of secrecy and/or use by the Government of the invention resulting from his disclosure. The right to compensation for use shall begin five years from ~~on the date of~~ the first use of the invention by the Government. In a suit under the provisions of this section the United States may avail itself of all defenses it may plead in an action under section 1498 of title 28. This section shall not confer a right of action on anyone or his successors, assigns, or legal

representatives who, while in the full-time employment or service of the United States, discovered, invented, or developed the invention on which the claim is based.

35 U.S.C. § 184. Filing of application in foreign country

Except when authorized by a license obtained from the Commissioner a person shall not file or cause or authorize to be filed in any foreign country prior to six months after filing in the United States an application for patent or for the registration of a utility model, industrial design, or model in respect of an invention made in this country. A license shall not be granted with respect to an invention subject to an order issued by the Commissioner pursuant to section 181 of this title [35 U.S.C. § 181] without the concurrence of the Patent and Trademark Technical Advisory Committee or the Department of Energy ~~head of the departments and the chief officers of the agencies~~ who caused the order to be issued. The license may be granted retroactively where an application has been filed abroad through error and without deceptive intent and the application does not disclose an invention within the scope of section 181 of this title [35 U.S.C. § 181].

The term "application" when used in this chapter [35 U.S.C. § 181 *et seq.*] includes applications and any modifications, amendments, or supplements thereto, or divisions thereof. The scope of a license shall permit subsequent modifications, amendments, and supplements containing additional subject matter if the application upon which the request for the license is based is not, or was not, required to be made available for inspection under section 181 of this title and if such modifications, amendments, and supplements do not change the general nature of the invention in a manner which would require such application to be made available for inspection under such section 181. In any case in which a license is not, or was not, required in order to file an application in any foreign country, such subsequent modifications, amendments, and supplements may be made, without a license, to the application filed in the foreign country if the United States application was not required to be made available for inspection under section 181 and if such modifications, amendments, and supplements do not, or did not, change the general nature of the invention in a manner which would require the United States application to have been made available for inspection under section 181.

35 U.S.C. § 185. Patent barred for filing without license

Notwithstanding any other provisions of law, any person, and his successors, assigns, or legal representatives, shall not receive a United States patent for an invention if that person, or his successors, assigns, or legal representatives shall, without procuring the license prescribed in section 184 of this title, have made, or consented to or assisted another's making, application in a foreign country for a patent or for the registration of a utility model, industrial design, or model in respect of the invention. A United States patent issued to such person, his successors, assigns, or legal representatives shall be invalid, unless the failure to procure such license was through error and without deceptive intent, and the patent does not disclose subject matter within the scope of section 181 of this title.

35 U.S.C. § 186. Penalty

Whoever, during the period or periods of time an invention has been ordered to be kept secret and the grant of a patent thereon withheld pursuant to section 181 of this title, shall, with knowledge of such order and without due authorization, willfully publish or disclose or authorize or cause to be published or disclosed the invention, or material information with respect thereto, or whoever willfully, in violation of the provisions of section 184 of this title, shall file or cause or authorize to be filed in any foreign country an application for patent or for the registration of a utility model, industrial design, or model in respect of any invention made in the United States, shall, upon conviction, be fined not more than \$10,000 or imprisoned for not more than two years, or both.

35 U.S.C. § 187. Non applicability to certain persons

The prohibitions and penalties of this chapter shall not apply to any officer or agent of the United States acting within the scope of his authority, nor to any person acting upon his written instructions or permission.

35 U.S.C. § 188. Rules and regulations, delegation of power

~~The Department of Energy Atomic Energy Commission, the Secretary of a defense department, the chief officer of any other department or agency of the Government designated by the president as a defense agency of the United States, and the Secretary of Defense may separately issue rules and regulations to enable the respective department or agency to carry out the provisions of this chapter, assuring consistency with the regulations to implement the Export Administration Act of 1979, and may delegate any power conferred by this chapter. Upon the request of the Secretary of Defense, Secretary of Commerce and any other department of the Government designated by the President as a defense agency of the United States desiring participation on the Patent and Trademark Technical Advisory Committee, shall detail to the Committee, on a nonreimbursable basis, personnel with appropriate expertise to assist in the review of patent applications reasonably expected to contain matter the subject of which is deemed applicable to section 181 of this title.~~

35 U.S.C. § 155. Patent term extension

Notwithstanding the provisions of section 154 [35 U.S.C. § 154], the term of a patent shall be extended for any patent which:

(a) encompasses within its scope a composition of matter or a process for using such composition shall be extended if such composition or process has been subjected to a regulatory review by the Federal Food and Drug Administration pursuant to the Federal Food, Drug, and Cosmetic Act [21 U.S.C. § 301 *et seq.*] leading to the publication of regulation permitting the interstate distribution and sale of regulation of approval imposed pursuant to section 409 of the Federal Food, Drug, and Cosmetic Act [21 U.S.C. § 348] which stay was in effect on January 1, 1981, by a length of time to be measured from the date such stay of regulation of approval was imposed until such proceedings are finally resolved and commercial marketing permitted. The patentee, his heirs, successors or assigns shall notify the Commissioner of Patents and Trademarks within

ninety days of the date of enactment of this section [enacted Jan. 3, 1983] or the date the stay of regulation of approval has been removed, whichever is later, of the number of the patent to be extended and the date the stay was imposed and the date commercial marketing was permitted. On receipt of such notice, the Commissioner shall promptly issue to the owner of record of the patent a certificate of extension, under seal, stating the fact and length of the extension and identifying the composition of matter or process for using such composition to which such extension is applicable. Such certificate shall be recorded in the official file of each patent extended and such certificate shall be considered as part of the original patent, and an appropriate notice shall be published in the Official Gazette of the Patent and Trademark Office, or

(b) was delayed, pursuant to 35 U.S.C. §§ 181-188, by the order of secrecy and/or for the use of the invention by the Government for the period of the delay, but not to exceed five years.

5.3.2. 22 U.S.C. § 2761(e)

Charges; reduction or waiver

5.3.2.1. Summary of the Law

This section provides that, after September 30, 1976, letters of offer for the sale of defense articles or for the sale of defense services shall include appropriate charges for a proportionate amount of any nonrecurring costs of research, development, and production of major defense equipment.¹

Recoupment is based on the theory that if the Government pays for the development of a product, other purchasers should share in those costs when they buy the product. DOD implements recoupment in two ways. If a product is sold to a foreign government under a foreign military sales (FMS) arrangement, DOD recovers the recoupment charge directly from the foreign government. If the product is sold by the contractor directly to a foreign or domestic customer, or if a foreign company is licensed to manufacture the product, the contractor adds the recoupment charge to its contract and pays it to the Government.²

5.3.2.2. Background of the Law

Recoupment was initiated by Secretary of Defense McNamara in 1963 when he directed that the Polaris Sales Agreement with the United Kingdom include a surcharge to cover a pro rata share of DOD's Research, Development, Test, and Evaluation (RDT&E) investment in the Polaris missile.³

In 1965, Secretary McNamara expanded this concept by including a nonrecurring cost (NRC) recoupment for the sale of C-130 and F-4 aircraft sold to the United Kingdom. In a June 1965 memorandum from the Assistant Secretary of Defense for International Security Affairs (ASD/ISA) to the military departments, Secretary McNamara stated that "on major weapons sales . . . arrange for the price to include an appropriate charge for all research and development costs."

DOD formalized this policy in DOD Directive 2140.2, Recovery of Nonrecurring Costs Applicable to Foreign Sales, March 15, 1967.⁴ This directive called for recoupment of nonrecurring costs of development and production whenever an item of major defense equipment

¹22 U.S.C. § 2761(e)

²See Ralph C. Nash, Jr. & John Cibinic, *Recoupment: A Policy Enigma*, 6 N&CR 18 (Mar. 1992).

³Some individuals will attest that recoupment has been around since the 1950s. In 1957, the Navy Bureau of Aeronautics negotiated a recoupment clause in a development contract with the Hiller Helicopter Company. The clause was apparently used because the Navy believed that Hiller would subsequently sell a commercial version of the helicopter. There was a comparable commercial helicopter that had been developed with private funds by the Bell Helicopter Company. The Navy reasoned that recoupment was necessary to prevent Hiller from obtaining an unfair competitive advantage in the commercial marketplace.

⁴DOD Directive 2140.2 (Mar. 15, 1967).

(MDE) was sold to a foreign government by DOD or one of its customers.⁵ The directive also required the use of a contract clause implementing the requirement for MDE.⁶ The directive was limited, however, in that it did not apply to domestic commercial sales or foreign licenses. Moreover, MDE was defined as RDT&E in excess of \$25 million or a production investment in excess of \$100 million. ASD/ISA was charged with monitoring implementation of the directive in order to "avoid unfavorable impact on the Foreign Military Sales Program and the balance-of-payments problem."

In 1972, the thresholds for MDE doubled.⁷ During that year, the Commission on Government Procurement recommended elimination of recoupment, except under unusual circumstances approved by the agency head.⁸ The Commission voiced a concern that contractors might not undertake Federal research and development because of insufficient opportunity for commercial exploitation.⁹ The Commission stated recoupment would be a disincentive to the participation of potential contractors and would impair the eventual availability of the results of Government-sponsored technology in the marketplace.¹⁰

Subsequently, in 1974, the directive was revised to split the recoupment charge into two segments, one for nonrecurring development costs and the other for nonrecurring production costs.¹¹ The directive stated that normally the development cost recoupment charge should be no more than 4% of the contract price.¹² Non-MDE threshold was defined as production costs, both nonrecurring and recurring exceeding \$5 million.¹³ Also, during this year, the White House Council on International Economic Policy (CIEP) issued Decision Memorandum No. 23.¹⁴ This memorandum announced that President Nixon had approved a CIEP recommendation that NRC recoupments be sought on product sales and that there be a "fair market recovery" on technology sales.¹⁵ This memorandum was implemented only by DOD, Department of Energy, and NASA.

Congress first adopted the recoupment policy in the Arms Export Control Act of 1976 (Pub. L. No. 94-329). The Act contains a provision at 22 U.S.C. § 2761(e)(1)(B) requiring that FMS agreements include "a proportionate amount of any nonrecurring costs of research, development, and production of major defense equipment."¹⁶ Congress obviously knew the Act was more limited than earlier DOD Policy and thus clearly intended to obtain recoupment only on FMS and MDE. DOD, however, implemented this statute by revising DOD Directive 2140.2.¹⁷ The directive greatly expanded the requirement for recoupment by applying it to domestic

⁵*Id.*

⁶*Id.*

⁷37 *Fed. Reg.* 21482 (1972).

⁸REPORT OF THE COMMISSION ON GOVERNMENT PROCUREMENT, Vol 2, p. 28 (Dec. 1972).

⁹*Id.* at 29.

¹⁰*Id.*

¹¹DOD Directive 2140.2 (Jan. 23, 1974)

¹²*Id.*

¹³*Id.*

¹⁴Decision Memorandum No. 23 (Aug. 2, 1974).

¹⁵*Id.*

¹⁶22 U.S.C. § 2671(e).

¹⁷DOD Directive 2140.2 (Jan. 5, 1977).

commercial sales and all sales of technology.¹⁸ It also reduced the threshold for recoupment of development costs to equipment where there was a research and development investment in excess of \$5 million.¹⁹

In 1977, President Carter issued his Arms Policy (PD-13)²⁰ aimed at reducing arms exports. As part of an implementing White House directive to eliminate incentives for making arms sales, DOD changed its policy and procedures on the use of NRC recoupments. Prior to PD-13, recoupments were credited to the RDT&E appropriation accounts of the military departments and were reusable. After PD-13, recoupments were deposited into the Miscellaneous Receipts of the Treasury.

Recoupment further expanded in 1979 when Defense Acquisition Circular (DAC) 76-20 mandated a recoupment clause in all RDT&E or production contracts over \$1 million.²¹ The revised clause also expressly excluded the recoupment amount from the Contract Disputes Clause.²²

The Office of Federal Procurement Policy published a proposed policy letter on NRC recoupments in 1980. The intent of the policy letter was to implement CIEP Decision Memorandum No. 23 by providing criteria and guidelines. Industry opposed the policy letter and it was never issued in final form.²³

The House Government Operations Committee issued a report in 1981 criticizing DOD's administration of NRC recoupments in both FMS and commercial exports.²⁴ The report also criticized the lack of specific criteria for waivers.²⁵ The Committee recommended that DOD should: (1) evaluate whether to reduce the \$5 million threshold; (2) consider adopting a flat rate surcharge on non-MDE; and (3) include the values of, and reasons for, waiver of NRC in the required quarterly FMS reports to Congress.²⁶

In 1984, the chairman of the House Foreign Affairs Committee requested a report from the GAO on DOD's implementation of the NRC recoupment requirement on commercial sales. The GAO report concluded that the Arms Export Control Act did not require recouping a pro rata share of NRC on commercial sales by contractors, nor did any other statute. The GAO stated, however, that it was appropriate for DOD to collect an NRC recoupment on commercial sales even though not legislatively mandated. Moreover, unless the regulations were amended or

¹⁸*Id.*

¹⁹*Id.* ASPR implemented revised DOD Directive 2140.2 on Aug. 15, 1977.

²⁰President's Decision No. 13 (May 1977).

²¹DAC 76-20 (Sept. 17, 1979).

²²*Id.*

²³45 *Fed. Reg.* 44604 (1980).

²⁴H. Rep. No. 214. (July 31, 1981).

²⁵*Id.* The 1987 DOD Appropriation Act included a rider requiring advance notification of proposed waivers to the Appropriations Committee. This rider was re-enacted in each of the subsequent six years and then dropped. The notifications did not result in any follow-up congressional inquiries.

²⁶*Id.* Also in 1981, the Arms Export Control Act was amended to provide for establishment of the Special Defense Acquisition Fund (SDAF). One of the sources of capital for the SDAF is the NRC recoupment.

determined to be invalid by the judiciary, contractors must follow the regulations. Congress took no action on this report.

DOD Directive 2140.2 was again revised on August 5, 1985.²⁷ The revised directive further expanded the scope of recoupment by covering modification kits and major components of MDE items. The revision also reduced the thresholds for non-MDE to \$2 million. The directive called for assessment of recoupment charges on items of equipment which are "substantially different" from items developed on DOD contracts if they have some commonalty. This was the first departure from the concept of "essentially similar." Lastly, this directive included greater guidance on the computation of recoupment charges.

In February 1986, the GAO reported to the Secretary of Defense that DOD did not have a workable system to identify and monitor commercial sales to ensure that NRC recoupments were being paid. In March, the House Operations Committee held hearings on NRC recoupments. The DOD Inspector General (DODIG) testified that DOD elements were having difficulty determining the correct charges. The established procedures were also inadequate. The DODIG expressed doubt as to the soundness of going to a flat rate for MDE. A GAO witness stated Congress would probably have to change the law if it wanted to implement a flat rate for MDE. A Defense Security Assistance Agency witness opposed the flat rate proposal.

On July 27, 1987, DOD Directive 2140.2 was again amended to provide more specific guidance for re-examining the computation of the NRC charge when significant changes in the data bases occurred. Also, DOD in-house nonrecurring costs were added to the recoupment pools. To implement this directive, DOD issued DFARS Part 271 on March 22, 1989. This supplement interprets the policy to cover "derivative items," meaning items with at least 10% common parts. A standard recoupment clause was also included in DFARS 252.271-7001.²⁸ This policy is broad in that it covers a large number of situations with commensurate accounting requirements and unknown subcontract impacts.²⁹ There has been considerable negative reaction from industry on the current policy.

As a result of the negative industry reaction, DOD published a proposed new policy at 32 CFR Part 165 to revise DOD Directive 2140.2. DOD also proposed a new DFARS Subpart 215.70 to replace Part 270 on October 25, 1991.³⁰ This revision would reduce the scope of the recoupment policy. In particular, the revision would cover only major end items with development costs of over \$50 million or total production costs of over \$200 million and technical data packages or technology associated with such items. It would also redefine "derivative items" to include only items with 50% commonalty. The Office of Management and Budget (OMB) ruled that the recoupment regulations are a "major rule," thereby requiring a Regulatory Impact Analysis estimating the costs and benefits of the rule in comparison with

²⁷DOD Directive 2140.2 (Aug. 5, 1985).

²⁸In the 1991 revision to the DFARS, the policy is now in Subpart 270 and the clause is in DFARS 252.270-7000.

²⁹Ralph C. Nash, Jr. & John Cibinic, *Recoupment: A Policy Enigma*, 6 N&CR 18 (Mar. 1992).

³⁰56 *Fed. Reg.* 55250 *et seq.* (1991).

alternatives. As a result, DOD requested public comments on the cost/benefit issue on November 26, 1991.³¹

On January 13, 1992, the Defense Acquisition Regulatory (DAR) Council stopped implementation of DOD's proposed rule governing recoupment of nonrecurring costs on sales of U.S. products and technologies.³² Although pleased with this measure, "industry still felt that a recoupment policy of any kind harmed U.S. competitiveness."³³ Both OMB and the President's Council on Competitiveness agreed with industry.

On June 19, 1992, the White House released a press report announcing a national policy of no recoupment.³⁴ The first stage of the new policy abolishes recoupment on any product (other than MDE) exported for military uses. The second stage of the policy supports the elimination of recoupment fees on MDE exported for military uses pursuant to 22 U.S.C. § 2761(e) of the Arms Export Control Act. This new policy is based on the historic political changes of the past three years, such as the end of the Cold War and the accompanying downsizing of the U.S. military. Recognizing the change in the world environment, the new policy hopes to facilitate efforts by defense-oriented companies to shift toward commercial activities. The policy change is "expected to eliminate a major barrier to the free flow of technology between the commercial and defense sectors of U.S. business."³⁵ The new policy will also enhance the ability of American firms to compete for billions of dollars of business that they might otherwise lose. This will hopefully avoid significant layoffs and preserve tens of thousands of American jobs.

In response to the President's direction, on July 2, 1992, DOD published an interim rule which eliminated the requirement to insert the recoupment clause in new DOD contracts other than those for FMS or commercial sales of MDE.³⁶ DOD also published a proposed rule for public comment which would delete the requirement with respect to new contracts for commercial sales of MDE.³⁷ Thus, when this rule is adopted recoupment will be eliminated except for FMS of MDE, which cannot be eliminated until section 21(e)(2) of the Arms Export Control Act is repealed.

³¹56 *Fed. Reg.* 59931. (1991).

³²56 *Fed. Reg.* 55264 (1991).

³³*Recoupment of Nonrecurring Costs*, 32 *Cont. Mgmt.* 32 (Aug. 1992).

³⁴The President's new policy on recoupment was developed by the DOD and OMB's Office of Federal Procurement Policy in consultation with the Council on Competitiveness, the President's Export Council, and the Department of State.

³⁵*Recoupment of Nonrecurring Costs*, 32 *Cont. Mgmt.* 36 (Aug. 1992).

³⁶32 CFR Part 165, *Recoupment of Nonrecurring Costs on Sales or Licensing of U.S. Items*, 57 *Fed. Reg.* 29619 (1992). See also Memorandum from Deputy Secretary of Defense, Donald J. Atwood (Oct. 7, 1992).

³⁷32 CFR Part 165, *Recoupment of Nonrecurring Costs on Sales or Licensing of U.S. Items*, 57 *Fed. Reg.* 29618 (1992).

5.3.2.3. Law in Practice

Recoupment operates like a sales tax imposed only on U.S. companies. Because U.S. companies must add a recoupment charge to the price of their products, recoupment reduces U.S. defense industry competitiveness both in the U.S. and abroad.

In today's environment, many defense-oriented companies are attempting to redirect their efforts toward commercial products. The recoupment surcharge may make the product noncompetitive, thereby hindering integration and commercialization. This problem should largely dissipate under the President's new policy.

There is also an administrative burden associated with recoupment. Although this burden will be reduced under the first stage of the new policy, the costly paperwork and regulatory compliance requirements on MDE items will continue to be substantial.

5.3.2.4. Recommendations and Justification

Repeal

Because of the historic changes in the world environment, recoupment should be repealed in its entirety. This recommendation will facilitate the transfer of technology between Government and commercial markets; aid integration of contractors' Government and commercial operations; increase U.S. competitiveness in worldwide markets; and enhance national security by preserving the industrial base.

Under the statute, when a contractor sells products or technologies developed under a Government contract or derivatives of them to a non-Government customer, the contractor must pay a fee, similar to a sales tax, to the U.S. Government. The recoupment surcharge may make the product noncompetitive and thus prevent a contractor from selling the product. Thus, recoupment may act as a disincentive to defense-oriented companies which may be attempting to redirect efforts toward commercial products. Eliminating recoupment will give defense contractors an incentive to develop products and technologies with larger markets.

There is an argument that without recoupment, a contractor might gain a competitive advantage by spinning commercial items out of Government funded research and development. This argument has several flaws. First, much of the Government funded research and development will have little application to any commercial derivative. Second, a company still has the costs of product modification in developing a commercial product. Finally, this argument acts counter to the goal of maximizing the development of dual use technologies.

The first stage of the President's new policy of abolishing recoupment on any product other than MDE will benefit defense-oriented companies attempting to redirect efforts toward commercial products. This proposal supports the second stage of the President's new policy by recommending 22 U.S.C. § 2761(e) be eliminated in its entirety.

Eliminating recoupment is necessary to make U.S. companies more competitive in worldwide markets. Since it appears DOD intends to reduce contracts for the production of military equipment, many production lines will be kept open only through foreign sales. Repealing the statute would enhance the ability of American companies to compete for billions of dollars of business they might otherwise lose. A national policy of no recoupment also enhances national security by strengthening defense-oriented U.S. companies, thereby preserving an industrial base.

There is also an administrative burden associated with recoupment. Although this burden will be reduced under the new policy, the costly paperwork and regulatory compliance requirements on MDE items will continue to be substantial. By eliminating recoupment, businesses can reinvest money otherwise expended for paperwork and regulatory compliance into developing new products and technology.

5.3.2.5. Relationship to Objectives

This recommendation will encourage U.S. defense companies to develop products in the commercial market, thereby furthering the goal of commercial integration. The recommendation will also strengthen U.S. defense companies by making them more competitive in the international market.

5.3.2.6. Proposed Statute

22 U.S.C. § 2761. Charges; reduction or waiver

(e)(1) Letters of offer for the sale of defense articles or for the sale of defense services that are issued pursuant to this section or pursuant to section 2762 of this title shall include appropriate charges for:

(A) administrative services, calculated on an average percentage basis to recover the full estimated costs (excluding a pro rata share of fixed base operation costs) of administration of sales made under this Act to all purchasers of such articles and services as specified in section 43(b) and section 43(c) of the Act [22 U.S.C. § 2792(b),(c)];

~~(B) a proportionate amount of any nonrecurring costs of research, development, and production of major defense equipment (except for equipment wholly paid for either from funds transferred under section 503(a)(3) of the Foreign Assistance Act of 1961 [22 USCS § 2311(a)(3)] or from funds made available on a nonrepayable basis under section 23 of this Act [22 USCS § 2763]) ; and~~

~~(B) (C)~~ the recovery of ordinary inventory losses associated with the sale from stock of defense articles that are being stored at the expense of the purchaser of such articles.

~~(2) The President may reduce or waive the charge or charges which would otherwise be considered appropriate under paragraph (1)(B) for particular sales that would, if made,~~

~~significantly advance United States Government interests in North Atlantic Treaty Organization standardization, standardization with the Armed Forces of Japan, Australia, or New Zealand in furtherance of the mutual defense treaties between the United States and those countries, or foreign procurement in the United States under coproduction arrangements.~~

(2) (3)(A) The President may waive the charges for administrative services that would otherwise be required by paragraph (1)(A) in connection with any sale to the Maintenance and Supply Agency of the North Atlantic Treaty Organization in support of:

(i) a weapon system partnership agreement; or

(ii) a NATO/SHAPE project.

(1) The Secretary of Defense may reimburse the fund established to carry out section 43(b) of this Act [22 U.S.C. § 2792(b)] in the amount of the charges waived under subparagraph (A) of this paragraph. Any such reimbursement may be made from any funds available to the Department of Defense.

(C) As used in this paragraph:

(i) the term "weapon system partnership agreement" means an agreement between two or more member countries of the Maintenance and Supply Agency of the North Atlantic Treaty Organization that:

(I) is entered into pursuant to the terms of the charter of that organization; and

(II) is for the common logistic support of a specific weapon system common to the participating countries; and

(III) the term "NATO/SHAPE project" means a common-funded project supported by allocated credits from North Atlantic Treaty Organization bodies or by host nations with NATO Infrastructure funds.

(ii) the term "NATO/SHAPE project" means a common-funded project supported by allocated credits from North Atlantic Treaty Organization bodies or by host nations with NATO Infrastructure funds.

5.3.3. 5 U.S.C. § 552

Public Information: agency rules; opinions, orders, records, and proceedings

5.3.3.1. Summary of the Law

The Freedom of Information Act (FOIA) provides for the disclosure of agency records and information to the public (including foreign companies and governments) and some of this information is inevitably technical information of value to contractors. The basic premise of the FOIA is "that all records of agencies of the Federal Government must be accessible to the public unless specifically exempt from this requirement."¹

The FOIA establishes requirements for disclosure by: (1) publication in the Federal Register (section 552(a)(1)); (2) availability for public inspection and copying (section 552(a)(2)); or (3) release pursuant to a request for access from "any person" (section 552(a)(3)).

An agency's failure to comply with requirements for disclosure under sections 552(a)(1) and (2) may lead to invalidation of related agency actions. In some cases, reliance on failure to comply with FOIA's publication requirements will provide a basis for invalidating agency action that would not be subject to attack on the rule making requirements of the Administrative Procedure Act (5 U.S.C. § 553).²

All records not covered by sections 552(a)(1) and (2) are to be made public unless exempted from mandatory disclosure by section 552(b) upon proper identification and request according to established agency rules. Nine exemptions permit an agency to withhold access to records requested under section 552(a)(3).

For purposes of Government procurement, the three exemptions most often relied upon by agencies for denying FOIA requests are: matters specifically exempted from disclosure by statute (section 552(b)(3)); trade secrets and commercial or financial information (section 552(b)(4)); and interagency or intra-agency memorandums or letters (section 552(b)(5)).

The FOIA allows the agency supplying the requested information to charge a reasonable fee set by regulation to cover the cost of searching, duplicating, and reviewing the information. The FOIA provides that the fee charged by agencies for supplying requested information can vary depending on whether the information is to be used for commercial or noncommercial purposes. The agency may also waive or reduce the fee.

¹*Litigation Under the Federal Open Government Laws* 1 (Allan Robert Adler ed., American Civil Liberties Union, 17th ed.).

²*Id.* at 3-5.

5.3.3.2. Background of the Law

The FOIA was enacted September 6, 1966 by Pub. L. No. 89-554 to provide the public with access to Government records.³ This was the first time that there was a statutory right of access by any person to Federal agency records. Prior to the enactment of the FOIA, requests for information from the Federal Government were made pursuant to section 3 of the Administrative Procedure Act (APA). This law provided that "official records" could be made available to "persons properly and directly concerned" with the information. Section 3, however, was often used as authority for withholding, rather than disclosing, information. Congress enacted the FOIA largely to prevent agencies from using section 3 to unduly restrict the release of public information.

5.3.3.3. Law in Practice

DOD reported to Congress that during 1991 it processed a total of 129,437 FOIA requests.⁴ Of the total requested, DOD fully denied 7,709 and partially denied 1,993 on the basis of the FOIA exemptions. DOD's total operating cost associated with the 1991 FOIA requests was \$23,962,169.67. The fees collected for records provided to the public amounted to \$1,593,410.78. DOD report stated that the average processing cost of a single case during 1991 was \$185.⁵

5.3.3.4. Recommendations and Justification

Retain

Although the total operating cost associated with processing FOIA requests is very expensive, public policy dictates that the FOIA remain intact.

The FOIA establishes a presumption that records of the Federal Government are accessible to the public.⁶ As stated above, prior to the passage of the FOIA, the Government's posture was to withhold rather than to disclose information to the public. Individuals seeking information were required to show a need for the information.⁷ The "need to know" philosophy has been replaced by a "right to know" policy. This right is viewed as outweighing the administrative costs associated with the Act.

³President Johnson threatened a veto of the legislation after the Senate passed the bill. The House wrote a report that gave a broader interpretation to the exemptions. However, the House then passed the exact text as approved by the Senate.

⁴See Freedom of Information Act Program CY 1991, Report to Congress (prepared by the Office of the Assistant Secretary of Defense (Public Affairs) and the Directorate for Freedom of Information and Security Review).

⁵*Id.*

⁶A Citizen's Guide on Using the Freedom of Information Act and the Privacy Act of 1974 to Request Government Records, 4th Report by the Committee on Government Operations, 2 (Government Printing Office, Washington, D.C., 1991).

⁷*Id.*

5.3.3.5. Relationship to Objectives

Although compliance with FOIA requires the expenditure of significant funds and effort by skilled procurement and legal personnel, it does not otherwise have any adverse effect on DOD procurement. Thus, retention of the Act has no impact on the objectives of the Panel.

5.3.4. 10 U.S.C. § 130

Authority to withhold from public disclosure certain technical data

5.3.4.1. Summary of the Law

This section provides that "the Secretary of Defense may withhold from public disclosure any technical data with military or space application in the possession of, or under the control of, DOD, if such data may not be exported lawfully outside the U.S. without an approval, authorization, or license under the Export Administration Act of 1979 (50 U.S.C. App. 2401-2420) or the Arms Export Control Act (22 U.S.C. § 2751 *et seq.*)."¹ Technical data, however, may not be withheld under this section if regulations promulgated under either Act authorize the export of such data pursuant to a general, unrestricted license or exemption in such regulations.²

5.3.4.2. Background of the Law

This section was enacted by the Department of Defense Authorization Act for FY1984, Pub. L. No. 98-94. The purpose of the legislation was to withhold from public disclosure certain kinds of valuable technical data with military or space application which are in the possession of or under the control of DOD.³ Congress was concerned that "blueprints and military specifications for weapons and other military equipment, drawings, plans, technical data" could in many cases be released to foreign countries and foreign competitors under the Freedom of Information Act (FOIA).⁴ The FOIA, in effect, was enabling foreign nationals to obtain data which they could not obtain under export control laws. The provisions of the statute apply to certain kinds of technical data that, if they were to be exported, could not be exported lawfully outside the U.S. without approval, authorization or license under either the Arms Export Control Act or the Export Administration Act.⁵ Thus, by relating the Secretary's authority to withhold data to the export control laws, valuable technical data with military or space application could be protected.

5.3.4.3. Law in Practice

This statute is implemented by DOD Directive 5230.25 "Withholding of Unclassified Technical Data from Public Disclosure."⁶ Initially, when the statute was enacted, small businesses expressed concern that the broadened power of the Government over technical data might inhibit competition for military spare parts contracts.⁷ One lobbying group argued that the law would

¹ 10 U.S.C. § 130.

² *Id.*

³ H. Rep. No. 352, 98th Cong., 1st Sess. 250.

⁴ Omnibus Defense Authorization Act, 1984, S. Rep. No. 174, 98th Cong. 1st Sess. 260.

⁵ *Id.* at 261.

⁶ DOD Directive 5230.25 (Nov. 6, 1984).

⁷ Aviation Week & Space Technology at 26 (Aug. 29, 1983).

hurt small businesses by providing an obstacle to obtaining technical data, while large businesses and data brokers would not be affected.⁸ There was also a concern among small businesses that the implementing regulations would not adequately limit DOD's power to withhold data. These concerns were allayed by the implementing DOD Directive.⁹ The scope of the Directive specifically provides that the provision "does not introduce any additional controls on the dissemination of technical data by private enterprises or individuals beyond those specified by export control laws and regulations or in contracts or other mutual agreements."¹⁰

5.3.4.4. Recommendations and Justification

Retain

This law effectively ensures that the nation's export control laws are not by-passed by releasing certain technical data information with military or space application under FOIA that would require approval, authorization, or a license under export control laws. The statute also serves the purpose of protecting U.S. companies in worldwide competition as well as protecting information whose release would adversely impact on the national security. The law should, therefore, be retained.

5.3.4.5. Relationship to Objectives

This law serves the best interests of DOD because it protects U.S. companies in worldwide competition and also protects information whose release would adversely impact on the national security.

⁸*Id.*

⁹*Id.*

¹⁰DOD Directive 5230.25 (Nov. 6, 1984).

5.3.5. 10 U.S.C. § 2328

Release of technical data under the Freedom of Information Act: recovery of costs

5.3.5.1. Summary of the Law

This section provides that the Secretary of Defense, if required to release technical data under 5 U.S.C. § 552, shall release such technical data to a person requesting the release if the person pays all reasonable costs attributable to search, duplication, and review.¹

Section 2328(b) provides that an amount received under this provision shall: (1) be retained by DOD or the element of DOD receiving the amount; and (2) be merged with and made available for the same purpose and the same time period as the appropriation from which the costs incurred in complying with requests for technical data were paid.²

Section 2328(c) provides that the Secretary of Defense shall waive the payment of costs required by subsection (a) which are in an amount greater than the costs that would be required for such release of information under 5 U.S.C. § 552 if: (1) the request is made by a citizen of the U.S. or a U.S. corporation and the citizen or corporation certifies that the technical data requested is required in order to submit an offer (or determine whether it is capable of submitting an offer) to provide the product to which the technical data relates to the U.S. or a contractor of the U.S.; (2) the release of technical data is requested in order to comply with the terms of an international agreement; or (3) the Secretary determines, in accordance with 5 U.S.C. § 552(a)(4)(A)(iii), that such waiver is in the interests of the U.S.³

5.3.5.2. Background of the Law

The House amendment to the Defense Authorization Act for Fiscal Year 1987 contained a provision (section 935) that would allow the Government to charge a fee for technical data released under the Freedom of Information Act (FOIA). The fee would be an amount equal to the true administrative cost of searching for and reproducing the technical data. The provision further required that such data would be released at no additional cost to any requester who was a U.S. citizen or U.S. corporation if such citizen or corporation certified that the data was needed in order to bid on or perform a Government contract. The Conference Report to the law noted that "volumes of technical data have been requested when the requester did not require the data to bid on a government contract or to determine whether it would bid on a future requirement."⁴ The conferees stated that "the Government ought to be able to recover the full cost of dedicating personnel and equipment to provide such data."⁵ This legislation was also intended to protect

¹10 U.S.C. § 2328(a).

²10 U.S.C. § 2328(b).

³10 U.S.C. § 2328(c).

⁴H. Rep. 1001, 99th Cong., 2d Sess., at 513 (1986), reprinted in 1986 U.S.C.C.A.N. 6572.

⁵*Id.*

high tech firms that submit technical data information as part of their bid on a contract from data brokers. Data brokers file FOIA requests to obtain technical data and then sell the information to other entities. This may include competitors of the firm submitting the bid, thereby depriving the submitting firm of its competitive edge. The report specifically stated that this provision was not intended to affect the standards for releasing data.⁶

During 1985-86, the Navy was faced with an enormous volume of FOIA requests for technical data. The technical data repositories responding to the FOIA requests were not recovering the full costs incurred. Additionally, amounts received were required to go to the U. S. Treasury rather than be used by the agency. To remedy this situation, Congress enacted 10 U.S.C. § 2328.

5.3.5.3. Law in Practice

Parties requesting technical data information pursuant to this statute are required to pay all reasonable costs attributable to search, duplication, and review. 32 C.F.R. 518.92 defines reasonable costs as the full costs to the Government of rendering the service, or the fair market value of the service, whichever is higher. The regulation further states that full cost includes both direct and indirect costs to conduct the search and duplicate the records to be responsive to the request. Thus, the fees charged for the retrieval of technical data are generally higher than the fees charged for the retrieval of general public information under the FOIA statute. The statute also permits waiver of this larger fee if the request is made by a U.S. company.

5.3.5.4. Recommendation and Justification

Retain

This statute should be retained because it discourages the unnecessary release of defense contractors' technical data under FOIA. The statute also reduces the number of dedicated Government personnel and equipment necessary to provide such data. Lastly, by permitting waiver of the larger fee if the request is made by a U.S. company, the statute carries out the policy of ensuring that U.S. companies are not placed at a disadvantage in competing with foreign companies. Thus, the law serves the best interests of DOD.

5.3.5.5. Relationship to Objectives

This law meets the Panel's goal of serving the best interests of DOD.

⁶*Id.*

5.4. Government Use of Private Patents, Copyrights and Trade Secrets

5.4.0. Introduction

The Panel reviewed three statutes dealing with Government use of private patents, copyrights and trade secrets: 28 U.S.C. § 1498, 10 U.S.C. § 2386, and 10 U.S.C. § 7210. It found that these statutes give DOD necessary access to private technology but that they can be improved in several ways to ensure that owners of that technology are treated fairly when the Government must use their technology.

28 U.S.C. § 1498(a) provides that the sole remedy of a patent owner whose patent has been used by the Government or its contractors, with authorization and consent, is to sue the Government in the U.S. Court of Federal Claims for reasonable compensation. This, in effect, gives the Government the right of eminent domain over patents and the Government has exercised this right very widely -- giving authorization and consent to use private patents on almost all Government contracts. The Panel found two situations where such broad authorization and consent does not meet our objectives. It therefore recommends that the statute be amended to permit the Secretary of Defense to issue regulations providing for the withholding of authorization and consent when it would meet the Panel's objectives.

In the first situation, under current policy, when a patent owner claims that a procurement will require use of its patent, the contracting officer grants authorization and consent and may include a patent indemnity clause in the contract in an attempt to ensure that the infringing contractor is ultimately liable if the Government is required to pay compensation for the infringement. This creates a legal process where the patent owner sues the Government. The Government may in turn sue the infringing contractor -- a circumstance that does not appear to have induced infringing contractors to include this ultimate liability in their price. The result is that the infringing contractor gains an unfair advantage against the patent owner in competing for the work, since its price will not contain the cost of developing the invention. The Panel has concluded that a fairer competitive situation would occur if the contracting officer, in these circumstances, withheld authorization and consent with the result that the patent owner could sue the infringing contractor directly for damages. This would provide a strong inducement to the infringing contractor to include that amount in its price -- equalizing the competitive situation. The Panel has also recommended the addition of language to 35 U.S.C. § 283 to ensure that no injunction could be granted in these circumstances. This will ensure that the procurement could not be blocked by the patent owner.

In the second situation, under current policy, when a commercial item is procured, the contracting officer grants authorization and consent and includes a patent indemnity clause, resulting in the same convoluted system of remedies. The Panel has concluded that in most purchases of commercial items, the Government would be better served by merely withholding authorization and consent and letting commercial processes determine the winner of the procurement. This meets the Panel's objective of using commercial practices to the greatest extent possible in buying commercial items.

The Panel is aware that this may discourage some companies, including small businesses, from participating in some procurements, but believes that fair treatment of the patent owner warrants adoption of this statutory change. However, a number of Government commentators strongly argue that the benefits of competition outweigh the objectives sought under the proposed change.

10 U.S.C. § 2386 permits DOD to acquire rights in intellectual property, including the settlement of claims for rights previously taken, when such acquisition is necessary to carry out its mission. The Panel concludes that this statute serves a necessary purpose and should be retained, but that some of its terminology is obsolete. For instance, it describes one category as "designs, processes, and manufacturing data." The Panel recommends that these words be amended to use the current terminology -- "technical data and computer software." The Panel also recommends that the fourth category, permitting the purchase of releases (settlements of claims for past use), be broadened to give the Department greater flexibility. This will ensure that all such claims can be settled when that will further the procurement mission of the Department.

10 U.S.C. § 7210 is a Navy-unique statute that duplicates 10 U.S.C. § 2386. The Panel recommends that it be repealed.

5.4.1. 28 U.S.C. § 1498

Patent and copyright cases

5.4.1.1. Summary of the Law

Section 1498(a) provides that whenever a patented invention is used or manufactured by or for the U.S., without a license or lawful right, the owner's remedy is against the U.S. in the Claims Court for reasonable and entire compensation.¹ This section specifies that use or manufacture of a patented invention by a contractor with the authorization or consent of the Government is construed as use or manufacture for the U.S.²

Section 1498(b) provides similar protection for copyright owners where either the U.S. or a contractor, corporation, or any other person acting with the authorization or consent of the Government infringes an owner's copyright.³

The unauthorized use of a patented invention by the Government is considered a taking of the property by eminent domain. Specifically, Congress has taken the patent owner's right of injunctive relief and provided, instead, a right of reasonable and entire compensation. Thus, section 1498 limits the patent owner's remedies. In effect, this statute subjects the patents involved to compulsory licensing in favor of the Government.

5.4.1.2. Background of the Law

Section 1498 is based on section 68 of Title 35 (June 25, 1910, Ch. 423). Section 68 marked the first time that patent owners were granted a specific remedy for the Government's use of their inventions. The 1910 Act provided "that whenever an invention . . . covered by a patent of the U.S. shall hereafter be used by the U.S. without license of the owner thereof or lawful right to use the same, such owner may recover reasonable compensation for such use by suit in the Court of Claims . . ." ⁴ The intent of the statute was to enlarge the jurisdiction of the Claims Court so that it could hear suits against the U.S. for patent infringement and award reasonable compensation to the patent owner.⁵ Prior to this Act, Government use of patented inventions, without license or right, was considered an unauthorized act of the Federal employee supervising the activities. This individual was liable for patent infringement. There was no injunctive relief, however, against either the Government or its employee.⁶

¹28 U.S.C. § 1498(a).

²*Id.*

³28 U.S.C. § 1498(b).

⁴Act of June 25, 1910, Pub. L. No. 61-305 [H.R. 24649].

⁵H. Rep. 1288.

⁶Discussion in Nash and Rawicz, *Patents and Technical Data* at 589 (1983).

The Supreme Court considered the scope of this Act in *Crozier v. Krupp*.⁷ In *Crozier*, the Court held that this "statute . . . provides for the appropriation of a license [on behalf of the Government] to use inventions [and that] the appropriation [is] sanctioned by the . . . compensation for which the statute provides [for exercising the] power of eminent domain . . ."8

In *Cramp & Sons v. International Curtis Marine Turbine Co.*,⁹ a private independent contractor used a patented invention in the performance of its contract with the Government. The Court held that use by a contractor was not a "use by the U.S. without license" under the 1910 Act.¹⁰ Accordingly, the contractor was held liable for damages for patent infringement. As a result of this case, Congress passed the Act of July 1, 1918.¹¹ The purpose of this amendment was to prevent the halting of a contractor's work by means of an injunction. In *Richmond Screw Anchor Co. v. United States*,¹² the Court held that this amendment precluded suits against contractors regarding unauthorized use of patented inventions in production for the Government. The Court also held that under the 1918 amendment, the patent owner's only remedy was a suit against the Government in the Claims Court. The Court stated:

The purpose of the amendment was to relieve the contractor entirely from liability of every kind for the infringement of patents in manufacturing anything for the Government and to limit the owner of the patent and his assigns and all claiming through or under him to suit against the U.S. in the Court of Claims for the recovery of his reasonable and entire compensation for such use and manufacture. The word 'entire' emphasizes the exclusive and comprehensive character of the remedy provided.¹³

The 1918 amendment also introduced the concept of "authorization and consent" as a prerequisite to applicability of 28 U.S.C. § 1498(a). Procuring agencies use standard Authorization and Consent Clauses in most contracts.¹⁴ These clauses provide a mechanism which forces the patent owner to sue the Government, while at the same time, prevents the disruption of manufacturing or research and development activities by prohibiting the patent owner from obtaining injunctive relief from the Government.

5.4.1.3. Law in Practice

Section 271 of Title 35, U.S. Code provides that "whoever without authority makes, uses, or sells any patented invention, within the U.S. during the term of the patent therefor, infringes

⁷*Crozier v. Krupp*, 224 U.S. 290 (1912).

⁸*Id.* at 305.

⁹*Cramp & Sons v. International Curtis Marine Turbine Co.*, 246 U.S. 28 (1917).

¹⁰*Id.*

¹¹Act of July 1, 1918, 40 Stat. 705.

¹²*Richmond Screw Anchor Co. v. United States*, 275 U.S. 331 (1928).

¹³*Id.* at 343. The Richmond case has not been interpreted to mean that the Government may not shift liability of patent infringement back to the contractor by use of a Patent Indemnity Clause.

¹⁴FAR part 52.227.1.

the patent."¹⁵ Under this statute, the patent owner can obtain injunctive relief (section 283) and/or monetary damages (section 284).

Section 1498 of Title 28, U.S. Code, on the other hand, protects a Government contractor from suit for patent infringement when the use is: (1) for the Government; and (2) with the authorization or consent of the Government. Under this statute, the patent owner is precluded from filing suit against the infringer. The patent owner's only relief is against the Government for monetary damages. The patent owner cannot obtain injunctive relief against the Government. The Government, in particular DOD, wanted to ensure that manufacturing and research and development activities would not be disrupted by a patent infringement claim. Thus, by limiting the patent owner's remedy to "reasonable and entire compensation," the Government is assured of continued contract performance even when there is a patent infringement claim.

Because the patent owner's only recourse is against the Government, the infringer is insulated from suit. The infringer also has a competitive advantage over the patent owner or licensee because the infringer can offer a price which does not include recovery of the costs of making the invention. FAR 27.203-1(b)(2) permits the use of a patent indemnity clause when a patent owner contends that infringement will occur. This procedure, however, has not been a satisfactory method of equalizing the competitive position of these parties.

5.4.1.4. Recommendations and Justification

I

Amend 28 U.S.C. § 1498 to provide the Secretary of Defense with the authority to issue regulations prescribing when a contracting officer may withhold authorization or consent.

II

Amend 35 U.S.C. § 283 to prohibit a claimant from obtaining injunctive relief where the infringement has occurred in the performance of a Government contract.

Section 1498(a) protects the Government contractor from suits for patent infringement when the use is: (1) for the Government; and (2) with the authorization or consent of the Government. The purpose of the authorization or consent clause is to limit the patent owner's remedy to suit against the Government for monetary damages, thereby preventing the halting of a contractor's work by means of an injunction. It has been the policy of the Government when implementing this statute to insert blanket "authorization or consent" clauses into most contracts.

This proposal provides the Secretary of Defense with the flexibility to vary this policy by issuing regulations prescribing when a contracting officer may withhold authorization or

¹⁵35 U.S.C. § 271.

consent.¹⁶ The purpose of this recommendation is to ensure that the patent owner has the ability to effectively compete in the Government market. Two possible circumstances where withholding authorization or consent would be appropriate are: (1) where the patent owner comes forward claiming that award would infringe his patent; and (2) where the procurement is for a commercial product.

In the first instance, if a patent owner came forward asserting the patent, then the contracting officer could elect not to insert the "authorization or consent" clause in the solicitation. Since the infringer would no longer be protected from suit, the infringing offeror would have to factor the costs of an infringement suit into his offer. This price factor would bring the infringer's offer more in line with the patent owner's offer. Presently, an infringing offeror can sell an infringing product to the Government at a lower price than the inventor, thereby excluding the inventor from the Government market.¹⁷ Although a patent indemnification clause is often contained in a Government contract, this may not induce infringers to include a meaningful factor into their offer to compensate for the potential liability. Making infringing offerors quantify the risk of suit will assist the patent owner to effectively compete in the Government market. Small businesses expressed concern over this proposal stating that they would not be able to compete against large defense contractors or critical aircraft spare parts if this proposal were adopted.¹⁸ This issue will have to be addressed more fully as will the possible unintentional consequences of the Panel's recommendations.

The second instance where a contracting officer may want to withhold authorization or consent is where the procurement is for a commercial product. Generally, contractors do not infringe on commercial products because of the protection provided in section 2-312 of the Uniform Commercial Code. Under this provision, the seller warrants that:

- (1) the title conveyed shall be good, and its transfer rightful; and
- (2) the goods shall be delivered free from any security interest or other lien or encumbrance of which the buyer at the time of contracting has no knowledge.

Patent owners should be provided the same protection for commercial products sold to the Government as that given in section 2-312 of the Uniform Commercial Code. This proposal would improve the Government's commercial buying practices. Buying commercial products

¹⁶In response to a memorandum from the Panel to the acquisition community, both NASA and the Air Force stated that the proposed statutory change to section 1498 was unnecessary because the Secretary already has the authority to issue regulations prescribing when a contracting officer may withhold authorization or consent. See Memorandum from Dave Beck, Competition and Program Operations Division, Office of Procurement, NASA Headquarters (Oct. 19, 1992); Memorandum from the Office of the General Counsel, Department of the Air Force (Oct. 14, 1992); and Memorandum from Headquarters Air Force Materiel Command (Oct. 26, 1992). Although this is true, the proposed statute would directly address the waiver procedure option which could then be fully addressed in regulation.

¹⁷Even a licensee is at a disadvantage with the infringing offeror because the licensee will have to factor the price of the license into the bid proposal.

¹⁸Letter from Paul Seidman, Seidman & Associates (Oct. 19, 1992).

allows the Government to "take advantage of the broad based competition that occurs in the commercial market place."¹⁹ Some of the benefits of buying in the commercial market include "lower costs resulting from price competition and scale economics, short lead-times provided by deliveries from existing production lines, and increased surge capacity available from a broadened industrial base."²⁰ Only by assimilating commercial practices when buying commercial products can the Government take full advantage of the commercial marketplace.

5.4.1.5. Relationship to Objectives

This proposal would improve the Government's commercial product buying practice by giving the patent owner the same protection against infringement as that provided in the commercial market. The recommendation would also better enable the patent owner to compete in the Government marketplace.

5.4.1.6. Proposed Statute

28 U.S.C. § 1498. Patent and copyright cases

(a) Whenever an invention described in and covered by a patent of the United States is used or manufactured by or for the United States without license of the owner thereof or lawful right to use or manufacture the same, the owner's remedy shall be by action against the United States in the United States Claims Court for the recovery of his reasonable and entire compensation for such use and manufacture.

For the purposes of this section, the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States. The Secretary of Defense is authorized to issue regulations prescribing when a contracting officer may withhold authorization or consent.

The court shall not award compensation under this section if the claim is based on the use or manufacture by or for the United States of any article owned, leased, used by, or in possession of the United States prior to July 1, 1918.

A Government employee shall have the right to bring suit against the Government under this section except where he was in a position to order, influence, or induce use of the invention by the Government. This section shall not confer a right of action on any patentee or any assignee of such patentee with respect to any invention discovered or invented by a person while in the employment or service of the United States, where the invention was related to the official functions of the employee, in cases in which such functions included research and development, or in the making of which Government time materials, or facilities were used.

¹⁹Statement of Allan V. Burman, Administrator for Federal Procurement Policy, before the Subcommittee on Legislation and National Security of the Committee on Government Operations, U.S. House of Representatives (Oct. 31, 1991) at 2.

²⁰*Id.* at 3.

35 U.S.C. § 283. Injunction

Except where the infringement has occurred in the performance of a Government contract, the
The several courts having jurisdiction of cases under this title [35 U.S.C. §§ 1 et seq.] may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

5.4.2. 10 U.S.C. § 2386

Copyrights, patents, designs, etc., acquisition

5.4.2.1. Summary of the Law

This law authorizes the military departments to settle claims and procure rights in intellectual property. It provides that funds appropriated for a military department, available for making or procuring supplies, may be used to acquire any of the following if the acquisition relates to supplies or processes produced or used by or for, or useful to, that department:

- Copyrights, patents, and applications for patents;
- Licenses under copyrights, patents, and applications for patents;
- Designs, processes, and manufacturing data; and
- Releases, before suit is brought, for past infringement of patents or copyrights.¹

5.4.2.2. Background of the Law

The Act of 1910² gave patent owners a judicial remedy against the Government for the unauthorized use of patented inventions. It was not, however, until the enactment of the Royalty Adjustment Act of 1942³ that Government departments and agencies were expressly permitted to administratively settle claims for the unauthorized use of patented (and unpatented) inventions. Prior to 1942, some Government agencies had the authority to purchase future licenses to use patents. There was no law, however, which permitted a Government agency to administratively settle a claim after the occurrence of such use.

Section 3 of the Royalty Adjustment Act expressly authorized the heads of Government departments and agencies to enter into agreements to settle certain claims against the Government. It provided that:

The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the U.S. has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any

¹10 U.S.C. § 2386.

²35 U.S.C. § 68 (June 25, 1910, Ch. 423).

³Royalty Adjustment Act of October, 56 Stat. 1013 (1942).

claim against the U.S. accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based on manufacture, use, sale, or other disposition of said invention.⁴

Most commentators assume that the Royalty Adjustment Act expired on April 1, 1953,⁵ based on the view that the Act was primarily a war emergency measure which expired on April 1, 1953. In order to save this authority for DOD, section 609 of the Department of Defense Appropriation Act of 1954 was passed to provide express authority for making agreements previously authorized by section 3 of the Royalty Adjustment Act. This new law also provided for making agreements covering only past use. The Act of August 10, 1956, repealed the provisions of section 609 and codified at 10 U.S.C. § 2386.

A 1957 Comptroller General Opinion⁶ stated that the authority to release past infringements was limited to acquisitions "before suit is brought." The Comptroller General further stated that "the responsibility for determining the action to be taken with respect to the compromise and settlement of such claims pending after suit is brought . . . [is] . . . vested in the Attorney General of the U.S. pursuant to section 5 of Executive Order No. 6166."⁷ This Executive Order provides that it is the Department of Justice's (DOJ) decision to prosecute, defend, compromise, appeal, or abandon any prosecution or defense.

5.4.2.3. Law in Practice

Section 2386 is an administrative remedy that permits DOD to acquire rights in intellectual property. The Panel found that the law serves a necessary purpose and should be retained. However, the law is drafted using somewhat obsolete terms. For instance, the law describes one category as "designs, processes, and manufacturing data." Also, the law allows releases under both sections 2386(1) and (2), but not section 2386(3).

5.4.2.4. Recommendations and Justification

I

Amend 10 U.S.C. § 2386(3) by substituting the words "technical data and computer software" for "designs, processes, and manufacturing data."

⁴Although the Royalty Adjustment Act was primarily a war emergency measure, section 3 was intended as permanent legislation.

⁵In *International Telephone & Telegraph Corp. v. United States*, 210 Ct. Cl. 410, 536 F.2d 1361, 191 U.S.P.Q. 739 (1976), the court held that section 3 of the Royalty Adjustment Act of 1942 had not expired. The court stated that Congress did not intend to repeal, and did not repeal, section 3 of the Act. Moreover, the court stated that the enactment of 10 U.S.C. § 2386 did not repeal section 3 by implication.

⁶37 Comp. Gen. 199, B-132729 (1957).

⁷*Id.* at 202. See also *Sullivan v. United States*, 348 U.S. 170, 172.

The term "designs, processes, and manufacturing data" is outdated. Both FAR and DFARS define technical data broadly to include all data which is of scientific or technical nature, other than computer software.⁸ The phrase "designs and processes" covers computer software. Thus, section 2386(3) should be amended by substituting the words "technical data and computer software" for "designs, processes, and manufacturing data."

II

Amend 10 U.S.C. § 2386(4) to include the phrase "or for unauthorized use of technical data or computer software."

Section 2386(4) authorizes military departments to settle copyrights and patents (sections 2386(1) and (2), respectively), but does not mention technical data and computer software as identified in section 2386(3). The law should authorize military departments to settle all three types of claims. Adding the phrase "or for unauthorized use of technical data or computer software" to the end of the clause would allow military departments to settle technical data claims and provide uniformity to the statute.

III

Amend 10 U.S.C. § 2386(4) by deleting the words "before suit is brought."

The proposed amendment merely deletes the constraint "before suit is brought" in order to allow the agency maximum flexibility to settle patent infringement matters even after suit has been filed. Very few claims pursuant to section 2386 are settled at the agency level. The Intellectual Property Law Section of the Army Materiel Command stated that only one minor claim out of approximately 40 was settled at the agency level within a five year period.

Agencies wishing to negotiate a settlement after a claimant files suit are precluded from doing so because they no longer have authority over the matter. Thus, the agency often loses interest in the case once the claimant files suit because the agency is powerless to try to negotiate a settlement. Also, regardless of the outcome, once suit is filed, any settlement claim will not come out of the agency's appropriated funds.⁹ As a consequence, once suit is filed, DOJ must start at the beginning of the negotiation process with the claimant. This results in further delay in the resolution of the matter.

This proposal will allow the Department broader flexibility to settle suits, thereby ensuring that all such claims can be settled when that will further the procurement mission of the Department.

⁸See FAR 27.401 and DFAR 227.401(18).

⁹Pursuant to 28 U.S.C. § 1498, when an agency voluntarily settles a patent claim, it must pay that claim out of its appropriated funds. On the other hand, if the agency declines to settle and the claimant files suit, the claim is ultimately paid out of the Permanent Judgment Appropriation.

5.4.2.5. Relationship to Objectives

This proposal updates the wording of the law to current terminology. The proposal also gives the Department greater flexibility to settle claims by deleting the words "before suit is brought."

5.4.2.6. Proposed Statute

Copyrights, patents, designs, etc., acquisition

Funds appropriated for a military department available for making or procuring supplies may be used to acquire any of the following if the acquisition relates to supplies or processes produced or used by or for, or useful to, that department:

(1) Copyrights, patents, and applications for patents.

(2) Licenses under copyrights, patents, and applications for patents.

(3) Technical data ~~Designs, processes, and manufacturing~~ and computer software.

(4) Releases ~~, before suit is brought,~~ for past infringement of patents or copyrights or for unauthorized use of technical data or computer software.

5.4.3. 10 U.S.C. § 7210

Purchase of patents, patent applications, and licenses

5.4.3.1. Summary of the Law

This law provides that the Secretary of the Navy may buy letters patent, applications for letters patent, and licenses under either letters patent or applications for letters patent.¹ The law further provides that the "purchases shall be made from appropriations available for the purchase or manufacture of the equipment or material to which the purchased letters patent, applications, or licenses pertain. Section 7210(b) authorizes the Secretary of Defense to delegate the authority of the Navy, with or without the authority to make successive redelegations.²

5.4.3.2. Background of the Law

This statute was enacted on 2 August 1946 by the Naval Appropriations Pay Readjustment Act, Pub. L. No. 79-604.

5.4.3.3. Law in Practice

The Office of the Chief of Naval Research stated that the Navy no longer uses this statute and recommended its repeal.

5.4.3.4. Recommendation and Justification

Repeal

This is a Navy-unique statute that duplicates 10 U.S.C. § 2386. According to the Office of the Chief of Naval Research, all of the military services use 10 U.S.C. § 2386 for the acquisition of patents. Thus, because the law is redundant with section 2386, it should be repealed in its entirety.

5.4.3.5. Relationship to Objectives

This proposal serves the best interests of DOD by eliminating a redundant law from the U.S. Code.

¹10 U.S.C. § 7210(a).

²10 U.S.C. § 7210(b).